The NFIB Foundation

# Quarterly Economic Report for Small Business

## Fall 1990

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Prepared by
**The NFIB Foundation**

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**NFIB QUARTERLY ECONOMIC REPORT**
**FOR SMALL BUSINESS**
**(REPORT NO. 69)**

The 69th in series of quarterly economic reports based on survey data obtained during October 1990 by questionnaire from member firms of the National Federation of Independent Business, San Mateo, CA.

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# SUMMARY OF RESULTS

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Small business confidence is in free fall. The outlook for the coming months is dismal, among the worst in the 17 year history of the survey. Though actual conditions are considerably more positive than is confidence, the Index of Small Business Optimism in October tumbled to its lowest point since April, 1980. Month to month, October's Index score represented the third consecutive substantial decline. Quarter to quarter, it represented the second largest deterioration in survey history. Despite 2% GNP growth in the third quarter (a first estimate subject to two revisions), October's small business data were bad and suggested that small business owners will face rough times ahead.

Third quarter performance was mixed. Sales and earnings fell sharply between July and October. Both, as measured by the Indices of Small Business Sales and Earnings, stood at their lowest point since the last recession. Poorer employment performance and lower inventory accumulations reflected weakened sales and earnings. However, inventory satisfaction at quarter's end was unchanged from July and a bit better than in September, indicating no significant inventory overhang. In addition, current job openings remained reasonably high, though in decline. Capital spending was stable. Credit conditions including the interest rate charged on short-term loans were unchanged from July, providing additional evidence should more be needed that a national "credit crunch" doesn't exist and never did. However, rising prices accompanied the small business slowdown. While the trend was clearly to more frequent price increases, the number of small businesses reporting them in the

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This report is based on a random sample survey of NFIB members conducted during the month of October, 1990. Two thousand one hundred and forty (2,140) small and independent business owners returned usable questionnaires from the 7,200 mailed for a 29.7 percent response rate. A profile of respondents is located in the Appendix.

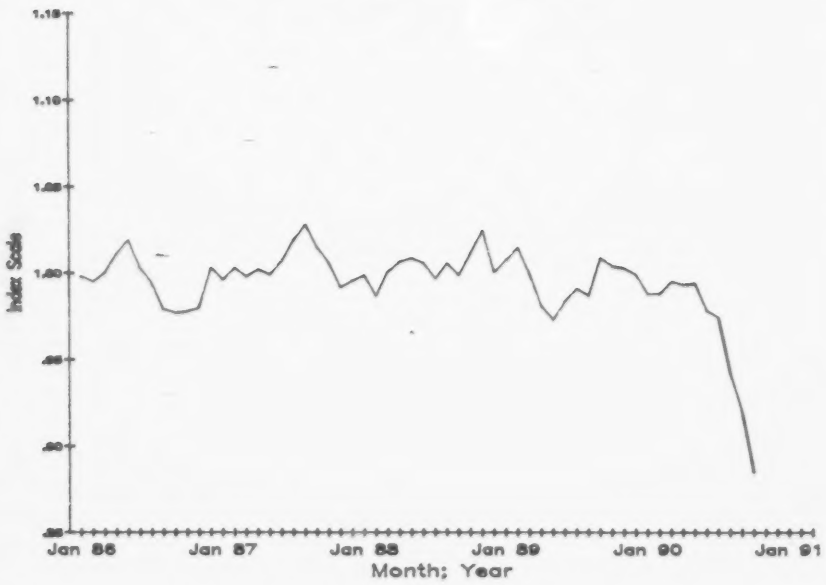
third quarter still fell below the number registering them earlier in the year. Thus, though small business conditions deteriorated over the last three months, the present seemed vastly superior to the grim forecast.

Indicators of future small business activity were bleak across the board. The outlook indicators, the softest and most subjective of the group, were the worst. Small business owners were terribly pessimistic. They believed the present was a poor time for business expansion and by a large margin forecast that general business conditions would continue to worsen. They expected sales and credit conditions to deteriorate. As a result, employment and inventory plans were negative and the percent forecasting new capital outlays dropped. The gloom in these expectations was compounded by an accelerating number who planned price increases.

The bleak outlook is recent; it developed within the last three months. Following minimal change throughout the first half of the year and indeed the last five years, small business optimism fell off a cliff in the third quarter (Chart 1). The 90 degree change (from flat to free fall) is unprecedented. However, the contrast between the deteriorating, though not dreadful present conditions, and the terrible outlook suggests that factors besides the economy are influencing small business owners. The most obvious intervening variable is the tense situation in the

CHART 1

MONTHLY INDEX OF SMALL BUSINESS OPTIMISM
JANUARY, 1986, TO OCTOBER, 1990



Middle East. The tumble began in August, just as Iraqi invaded Kuwait, and has continued ever since. Washington's budget debacle, which occupied part of September and most of October, constitutes another strong possibility. Thus, the decline may have been accelerated by political events, but it was not initiated by them.

It also appears that small business is faring relatively worse than large firms at the present time. The opposite occurred during the 1981-82 recession (see, Index of Small Business Optimism, Chart 5). The reason for the differential is the international market and the industrial composition of the two sectors. American exports, dominated by large manufacturers, are doing quite well while domestic consumer spending is not. Thus, small business is tumbling first and more rapidly into the 1990-91 recession.

## Outlook

The small business outlook in October was glum. A near majority, 43 percent, believed general business conditions would deteriorate in the next three to six months compared to just 12 percent who believed they would improve (Table 1). The resulting net -31 percent represented a decline of nine percentage points from September and 26 percentage points from July. As recently as June, the number who thought conditions would improve equalled the number who thought they would deteriorate. The bleakest assessment on record occurred in July, 1979, when, in a condition of runaway inflation and slower growth, a net -42 percent believed the economy would improve in the next three to six months.

TABLE 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

| EXPECTED CONDITIONS | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| MUCH BETTER | 2 | 2 | 1 | | 2 | 2 | 1 | 1 |
| BETTER | 19 | 17 | 19 | | 22 | 20 | 16 | 11 |
| SAME | 55 | 53 | 60 | | 57 | 57 | 53 | 36 |
| WORSE | 16 | 15 | 12 | | 13 | 13 | 20 | 36 |
| MUCH WORSE | 1 | 1 | 1 | | 1 | 1 | 2 | 7 |
| DON'T KNOW | 6 | 11 | 6 | | 5 | 6 | 7 | 9 |
| NO ANSWER | 1 | 1 | 1 | | * | 1 | 1 | * |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Pessimism was spread throughout the small business population. The influences of industry, size of firm and region of the country were minimal. The exception, and a modest one, occurred among owners in the West South Central states where the surge in oil prices has helped many local businesses.

Not only did small business owners feel general conditions were declining, but they pegged their assessments to a climate already considered unfavorable. Just five percent termed the present a good time for small business expansion (Table 2), challenging the survey record low, three percent, recorded in April, 1980. October's data represented a fall of two percentage points from September and nine from July.

The sentiment was again wide-spread. No industry, firm size or region disproportionately shared the pessimism. None veered more than two percentage points from the five percent national average except for a discouraged Mid-Atlantic region. But, the views of small business owners located in the eastern part of the country were more assured. These owners were far less likely to be uncertain about conditions than were those further west.

TABLE 2

CLIMATE FOR SMALL-BUSINESS EXPANSION IN NEXT QUARTER

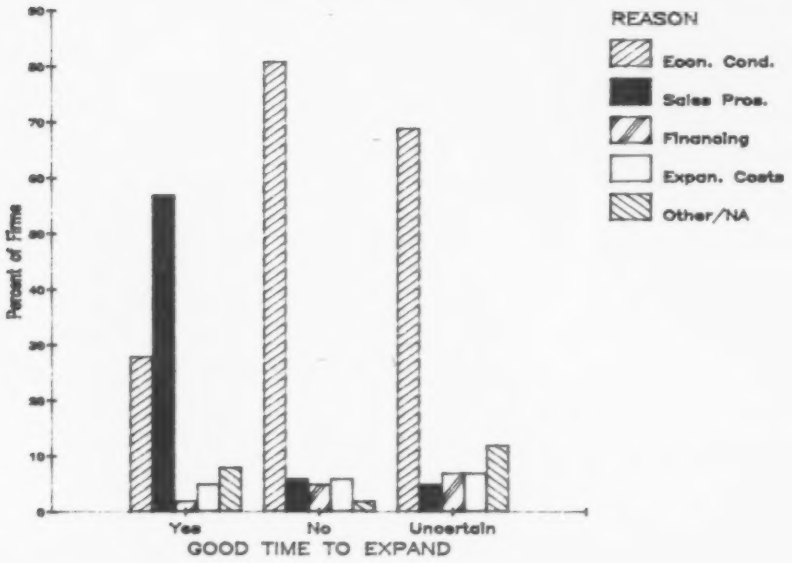
| GOOD TIME TO EXPAND | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| YES | 16 | 16 | 15 | | 15 | 17 | 14 | 5 |
| NO | 49 | 47 | 46 | | 50 | 46 | 54 | 74 |
| UNCERTAIN | 34 | 37 | 38 | | 34 | 36 | 32 | 21 |
| NO ANSWER | 1 | * | 1 | | 1 | 1 | * | * |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

The pessimistic assessment was underscored by the distribution of reasons small business owners gave for their views. Nearly 60 percent of the relatively few who held a favorable assessment of the climate cited sales prospects as the principal reason (Chart 2). Members of this group obviously had customers ready to buy, which for them translated into a good expansion climate. But differing from more prosperous times, comparatively few with a favorable assessment pointed to "economic conditions." The opposite occurred among those holding negative or uncertain views about the climate. By margins as high as 20 to 1, members of these two groups were more likely to cite economic conditions than they were sales prospects (Chart 2). The ill-defined nature of their uneasy

feelings could be found in the relatively few who offered such specific reasons as financing conditions or expansion costs. Just over one in ten attributed their pessimistic or uncertain view to one or the other.

CHART 2

"GOOD TIME TO EXPAND" BY REASON
FOR VIEW OF EXPANSION




Credit Conditions

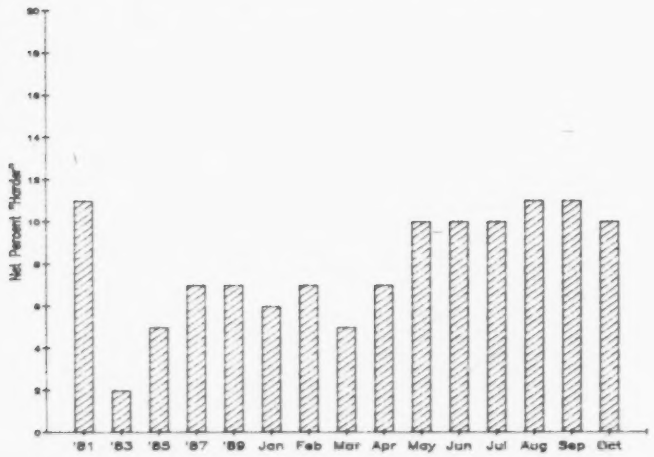
Talk of a "credit crunch" has dissipated in the last few months and for good reason: No credit crunch existed in the spring or early summer and conditions have remained stable over the last three months (Chart 3). Neither availability nor price has changed since July. What has happened since the beginning of the year is that loans which would have been made a few years earlier under more favorable conditions are no longer being made. The economic climate no longer justifies them. While the effect of climatic constraints may be no different than a credit crunch to many borrowers, the problem is a lack of good deals under existing circumstances rather than a lack of money to finance them. This situation is particularly true in construction and real estate.

The percent of regular borrowers reporting it more difficult to obtain a loan rose slowly in the first half of the year. By July, a net 10 percent (about 30 percent of all regular borrowers) indicated that it was more difficult to obtain a loan in the preceding three months than it was in the prior three. October's data

contained the same assessment, approximating the series average. Eleven (11) percent reported loans "harder" to obtain and one percent reported them "easier" (Table 3).

CHART 3

DIFFICULTY OBTAINING BUSINESS LOANS




Small business borrowers paid the same rates for their short-term financing in the last three months as they paid in the three months prior, 11.9 percent (Table 4). The average rate has not changed noticeably since the first of the year. Neither has the distribution of fixed and market rate loans. This steady price is another indicator that credit is not in short supply.

Table 5 presents the same picture of interest rates, but in a different form. Nine percent reported their financing costs higher in the prior three months than in the three months before; one percent reported them lower. A larger number typically report interest rates higher than lower. An eight percentage point differential such as experienced in October indicates market stability.

The percent of regular borrowers tied a survey record low. Just 34 percent reported borrowing regularly, defined as borrowing at least once a quarter. Poor overall economic conditions, relative control over inventories and a generally predictable inflation rate limited borrowing frequency.

Though neither the availability nor the price of small business credit changed during the spring and summer and though credit usually becomes relatively easier rather than harder to get in recessionary periods, small business owners believed credit condi-

TABLE 3

CURRENT AVAILABILITY OF LOANS
COMPARED TO AVAILABILITY IN PRIOR QUARTER

| LOAN AVAILABLITY | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| EASIER | 2 | 1 | 1 | | 1 | 1 | 1 | 1 |
| SAME | 27 | 28 | 26 | | 25 | 24 | 22 | 20 |
| HARDER | 8 | 7 | 7 | | 7 | 9 | 11 | 11 |
| DON'T KNOW | 2 | 2 | 2 | | 3 | 1 | 1 | 2 |
| DON'T BORROW; NO ANSWER | 62 | 62 | 64 | | 64 | 65 | 64 | 66 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 4

INTEREST RATES PAID ON SHORT-TERM LOANS

| INTEREST RATE | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| UNDER 10% | 11 | 6 | 1 | | 1 | 1 | 1 | 1 |
| 10-12% | 32 | 38 | 31 | | 32 | 38 | 41 | 38 |
| 13-15% | 7 | 8 | 12 | | 14 | 12 | 11 | 9 |
| 16% OR MORE | 3 | 2 | 5 | | 3 | 3 | 2 | 3 |
| PRIME +1 | 27 | 27 | 31 | | 29 | 25 | 25 | 31 |
| PRIME +2 | 20 | 18 | 18 | | 17 | 18 | 18 | 15 |
| PRIME +3 OR MORE | 5 | 4 | 2 | | 4 | 3 | 2 | 3 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |
| AVERAGE RATE (%) | 11.1 | 11.6 | 12.2 | | 12.2 | 12.0 | 11.9 | 11.9 |

tions would deteriorate in the coming months. A net 14 percent (over 40 percent of all borrowers) forecast that credit conditions would soon become more difficult (Table 6). (Half of all borrowers expected no change.) October's assessment was three percentage points worse than July's which in turn was three percentage points worse than April's. The reason why such a large segment continued to feel that credit conditions would worsen is not obvious. However, nagging doubts about general economic conditions appear to have spilled over into evaluations of components.

TABLE 5

CURRENT INTEREST RATES COMPARED TO
INTEREST RATES IN PRIOR QUARTER

| RELATIVE INTEREST RATES | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| MUCH HIGHER | 1 | 1 | 1 | | * | 1 | * | 1 |
| HIGHER | 25 | 22 | 9 | | 7 | 8 | 8 | 8 |
| SAME | 11 | 13 | 18 | | 21 | 21 | 24 | 23 |
| LOWER | 1 | 1 | 7 | | 7 | 4 | 2 | 1 |
| MUCH LOWER | * | * | * | | * | * | * | * |
| DON'T KNOW | 1 | 1 | 1 | | 1 | 1 | 2 | 1 |
| DON'T BORROW; NO ANSWER | 61 | 62 | 64 | | 64 | 65 | 64 | 66 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Prices

Small business selling prices were headed higher in October. A larger number raised prices in the last quarter than in the quarter before, though it was partially offset by a larger number who lowered prices. However, an even greater number expected to raise prices in the next quarter than raised them in the last one. Under the circumstances, actual price increases and planned price increases were modest.

Twenty-seven (27) percent reported higher average selling prices in the last three months than in the prior three (Table 7). October's number was three percentage points more than July's, but was unchanged from September. In fact, the frequency of price increases in the quarter compared favorably with the frequency of price increases occurring in 1988 and 1989. Perhaps the more significant change, however, was the number reporting lower average

selling prices. Thirteen (13) percent, the greatest number since 1986, indicated that their average selling prices were lower in the prior quarter than in the quarter before. The result was a net one percentage point climb in the frequency of selling price increases, a favorable outcome for the economy as a whole.

TABLE 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER
COMPARED TO CURRENT QUARTER

| CREDIT | 1987 | 1988 | 1989 | | 1990 | 1990 | 1990 | 1990 |
|---|---|---|---|---|---|---|---|---|
| EASIER | 2 | 2 | 1 | | 2 | 1 | 1 | * |
| SAME | 24 | 24 | 24 | | 22 | 22 | 28 | 17 |
| HARDER | 9 | 9 | 7 | | 8 | 9 | 12 | 14 |
| DON'T KNOW | 4 | 3 | 4 | | 4 | 3 | 3 | 3 |
| DON'T BORROW; NO ANSWER | 62 | 65 | 64 | | 64 | 65 | 64 | 66 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Increases in both the number raising and lowering prices is unusual. More typical is the situation which occurred in 1986 when the number raising prices fell and the number lowering prices rose, or the situation which occurred in late 1987 and early 1988 when the number raising prices rose and the number lowering prices fell. Price movements in opposite directions as just described are typical responses to changes in supply/demand. The current situation also involves changes in supply/demand, but additionally includes substantial relative price change. The majcr factor in relative price change is oil, but health care is probably another.

The wholesale (37%) and retail (37%) industries produced the most frequent selling price increases. All others, including manufacturing, posted increases about 60 percent as often. Just 26 percent in the transportation/communications industry with its small sample size (n=68) experienced average price increases.

Planned price changes indicated that small business owners will be raising prices more frequently in the latter part of 1990 and the early part of 1991. Thirty (30) percent reported plans to raise prices in the next three months (Table 8), a seven percentage point increase from July though just a single point rise from September.

The sequence of planned price increases suggests that oil is the culprit forcing small business owners to raise their prices more often than desired. The large jump in plans occurred between

TABLE 7

CURRENT AVERAGE SELLING PRICES COMPARED TO
PRIOR QUARTER'S AVERAGE SELLING PRICES

| AVERAGE SELLING PRICES | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| LOWER NOW | 9 | 8 | 9 | | 9 | 9 | 11 | 13 |
| NO DIFFERENCE | 63 | 59 | 61 | | 59 | 59 | 63 | 58 |
| HIGHER NOW | 23 | 29 | 28 | | 31 | 30 | 24 | 27 |
| < 1% | 1 | * | 1 | | * | 1 | * | 1 |
| 1.0-1.9% | 3 | 4 | 4 | | 4 | 4 | 3 | 2 |
| 2.0-2.9% | 4 | 4 | 5 | | 5 | 5 | 4 | 3 |
| 3.0-3.9% | 3 | 5 | 3 | | 4 | 4 | 3 | 4 |
| 4.0-4.9% | 2 | 4 | 4 | | 5 | 4 | 4 | 4 |
| 5.0-7.9% | 4 | 6 | 6 | | 6 | 6 | 5 | 6 |
| 8.0-9.9% | 1 | 1 | 1 | | 2 | 1 | 1 | 1 |
| 10% OR MORE | 4 | 4 | 3 | | 4 | 3 | 3 | 5 |
| NO ANSWER | 1 | 1 | 1 | | 1 | 2 | 1 | 1 |
| NO ANSWER | 5 | 4 | 2 | | 1 | 2 | 2 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

the August and September surveys, just as oil prices began to accelerate. However, the distribution of price increases by industry implies that other reasons may exist for rises in the frequency of planned increases as well. The most numerous plans occurred among owners in transportation/communications (44%), wholesale (37%), and retail (34%) with the least frequent in finance (12%) and agriculture (20%). While it is to be expected that those in transportation would react quickly and strongly to an oil price increase, price plans in wholesale and retail don't jibe. The reaction of energy-intensive manufacturing doesn't jibe either as that industry would be expected to be among the first to increase prices as oil prices rose. The season explains agriculture.

## Compensation

Employee compensation is <u>not</u> a reason why small business prices will be rising more rapidly. Not only did the frequency of

compensation increases decline in the third quarter compared to the second, but plans to raise compensation in the next three months were stable. Fears that compensation increases will drive price increases are clearly not warranted at this time, at least among the nation's small businesses.

TABLE 8

PLANNED PRICE CHANGES FOR THE NEXT QUARTER

| PLANNED PRICE CHANGES | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| LOWER | 3 | 3 | 3 | | 3 | 3 | 3 | 4 |
| NO CHANGE | 56 | 56 | 56 | | 50 | 56 | 58 | 49 |
| INCREASE | 21 | 25 | 25 | | 32 | 25 | 23 | 30 |
| < 1% | 1 | * | 1 | | 1 | 1 | 1 | 1 |
| 1.0-1.9% | 1 | 3 | 2 | | 4 | 3 | 2 | 2 |
| 2.0-2.9% | 4 | 4 | 4 | | 5 | 5 | 4 | 4 |
| 3.0-3.9% | 3 | 4 | 3 | | 4 | 3 | 3 | 4 |
| 4.0-4.9% | 2 | 3 | 4 | | 5 | 3 | 3 | 5 |
| 5.0-7.9% | 6 | 7 | 6 | | 7 | 6 | 5 | 8 |
| 8.0-9.9% | 1 | 1 | 1 | | 1 | 1 | 1 | 1 |
| 10% OR MORE | 2 | 3 | 3 | | 3 | 2 | 3 | 3 |
| DON'T KNOW | 1 | * | 1 | | 2 | 2 | 1 | 2 |
| DON'T KNOW | 14 | 12 | 14 | | 13 | 14 | 15 | 15 |
| NO ANSWER | 6 | 4 | 2 | | 2 | 2 | 1 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Twenty-four (24) percent reported raising employee compensation levels an average of 5.9 percent over the last three months (Table 9). Spread over all firms, the average amounted to 1.4 percent. October's data showed a decline in both the frequency and size of average compensation increases from July and April levels. The obvious reason for the decline is that the earlier reports contained the impact of the April 1 minimum wage increase. However, the weakening demand for labor was also evident when comparing October, 1990's numbers to those recorded in each of the last two Octobers.

TABLE 9

CHANGE IN AVERAGE COMPENSATION
OVER THE PRIOR QUARTER

| COMPENSATION CHANGE | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| INCREASED | 22 | 26 | 26 | | 24 | 27 | 29 | 24 |
| 1-2% | 3 | 3 | 4 | | 3 | 3 | 4 | 3 |
| 3-4% | 5 | 8 | 8 | | 6 | 8 | 7 | 7 |
| 5-6% | 7 | 7 | 7 | | 7 | 9 | 9 | 7 |
| 7-8% | 3 | 3 | 3 | | 3 | 2 | 2 | 3 |
| 9-10% | 2 | 2 | 2 | | 3 | 2 | 3 | 2 |
| OVER 10% | 1 | 2 | 2 | | 2 | 2 | 3 | 2 |
| NO ANSWER | 1 | 1 | * | | 1 | 1 | 1 | * |
| SAME | 70 | 67 | 68 | | 70 | 67 | 64 | 69 |
| DECREASED | 1 | 1 | * | | 1 | 1 | 1 | 2 |
| NO ANSWER | 7 | 6 | 6 | | 5 | 5 | 6 | 5 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| AVERAGE INCREASE | % | % | % | | % | % | % | % |
|---|---|---|---|---|---|---|---|---|
| FIRMS INCREASING | 5.9 | 5.8 | 5.7 | | 5.8 | 5.9 | 6.0 | 5.9 |
| ALL FIRMS | 1.3 | 1.5 | 1.5 | | 1.4 | 1.6 | 1.7 | 1.4 |

The frequency of planned compensation increases paralleled reported past compensation increases in suggesting that employee compensation will not soon spur prices upward. Eighteen (18) percent planned average compensation increases in the next three months (Table 10). The average planned increase was 5.5 percent per firm raising compensation or about 1.0 across all firms.

TABLE 10

PLANS TO CHANGE AVERAGE COMPENSATION
OVER THE NEXT QUARTER

| COMPEN-SATION CHANGE | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| INCREASE | 19 | 21 | 20 | | 26 | 22 | 17 | 18 |
| 1-2% | 2 | 2 | 2 | | 2 | 2 | 2 | 2 |
| 3-4% | 6 | 7 | 5 | | 9 | 7 | 6 | 6 |
| 5-6% | 7 | 7 | 7 | | 9 | 8 | 7 | 6 |
| 7-8% | 1 | 1 | 2 | | 2 | 2 | 1 | 1 |
| 9-10% | 1 | 2 | 2 | | 2 | 1 | 1 | 2 |
| OVER 10% | 1 | 1 | 1 | | 1 | 1 | * | * |
| DON'T KNOW | 1 | 1 | 1 | | 1 | 1 | * | 1 |
| NO ANSWER | * | * | * | | * | * | * | * |
| SAME | 67 | 66 | 65 | | 61 | 63 | 70 | 67 |
| DECREASE | 1 | 1 | 1 | | 1 | 1 | 1 | 2 |
| DON'T KNOW | 9 | 10 | 11 | | 10 | 12 | 9 | 10 |
| NO ANSWER | 4 | 2 | 3 | | 2 | 2 | 3 | 3 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| AVERAGE INCREASE | % | % | % | | % | % | % | % |
|---|---|---|---|---|---|---|---|---|
| FIRMS INCREASING | 5.5 | 5.4 | 5.6 | | 5.5 | 5.5 | 5.4 | 5.5 |
| ALL FIRMS | 1.1 | 1.1 | 1.1 | | 1.4 | 1.2 | 0.9 | 1.0 |

Sales

Small business sales fell in the third quarter compared to the second on a seasonally adjusted basis. The decline came on top of already tepid volume, putting total sales just above recession levels. The decline was reflected in the rising number who identified "Poor Sales" as their single most important business problem (see, Single Most Important Problem). But third quarter sales

looked dazzling compared to fourth quarter prospects. Small business owners saw their collective Christmas stocking filled with coal.

Just 30 percent reported higher sales in the last three months compared to the prior three contrasted to 27 percent who reported them lower (Table 11). The net +3 percent was the poorest October performance since a -5 percent in October, 1982. The seasonally adjusted Index of Small Business Sales presented the same portrait. The Index declined six percent from July and rested at its lowest level since January, 1983 (Chart 4). While the Index had not yet dipped to recession levels, it was resting on the threshold.

TABLE 11

DOLLAR SALES VOLUME COMPARED TO PRIOR QUARTER'S DOLLAR SALES VOLUME

| DOLLAR SALES VOLUME | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| MUCH HIGHER | 3 | 3 | 2 | | 3 | 4 | 3 | 3 |
| HIGHER | 32 | 32 | 31 | | 29 | 27 | 34 | 27 |
| ABOUT THE SAME | 44 | 45 | 43 | | 40 | 39 | 41 | 43 |
| LOWER | 17 | 17 | 20 | | 24 | 25 | 18 | 23 |
| MUCH LOWER | 2 | 2 | 3 | | 4 | 5 | 3 | 4 |
| NO ANSWER | 2 | 1 | 1 | | * | * | 1 | * |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

October found one of the bleakest sales outlooks in the survey's 17 year history. Gloomier forecasts were recorded only in one quarter of the 1980 recession and two of the 1974-75 recession. More small business owners expected sales to decline (38%) in the coming quarter than expected them to increase (33%), a very unusual situation (Table 12). The reason for the extreme pessimism was not clear. But it was part of an overall pattern where small business owners were most pessimistic about economic variables over which they have least control.

Sales expectations in most industries hovered around a net zero. About the same number expected sales to increase in the next quarter as expected them to decline. The most prominent exceptions were manufacturing and construction. A net 6 percent more manufacturers believed sales would increase than believed they would fall. Prospects for construction, heavily affected by seasonal factors, were the opposite. A net -33 percent forecast sales would rise.

CHART 4

INDICES OF SMALL BUSINESS SALES
AND SMALL BUSINESS EARNINGS

TABLE 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

| EXPECTED REAL SALES | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| GO UP A LOT | 7 | 9 | 7 | | 7 | 11 | 6 | 7 |
| GO UP A LITTLE | 37 | 34 | 36 | | 36 | 45 | 37 | 26 |
| STAY THE SAME | 25 | 26 | 27 | | 28 | 25 | 32 | 24 |
| GO DOWN A LITTLE | 21 | 20 | 21 | | 20 | 12 | 17 | 28 |
| GO DOWN A LOT | 5 | 6 | 5 | | 5 | 3 | 3 | 10 |
| DON'T KNOW | 3 | 3 | 3 | | 4 | 3 | 4 | 4 |
| NO ANSWER | 2 | 2 | 1 | | * | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

## Earnings

Earnings dropped sharply in the last three months, no doubt helping fuel the growing pessimism. Just 17 percent reported higher earnings in the third quarter than in the second; 38 percent reported them lower (Table 13). The decline was emphasized by the Index of Small Business Earnings which fell 12 percent between July and October, one of the largest tumbles on record (Chart 4). The Index's October level was the lowest since January, 1983.

TABLE 13

NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

| NET EARNINGS | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| MUCH HIGHER | 2 | 2 | 1 | | 1 | 2 | 2 | 1 |
| HIGHER | 22 | 22 | 22 | | 18 | 19 | 22 | 16 |
| SAME | 44 | 46 | 44 | | 43 | 41 | 43 | 44 |
| LOWER | 25 | 25 | 28 | | 32 | 31 | 29 | 33 |
| MUCH LOWER | 3 | 4 | 4 | | 5 | 6 | 3 | 5 |
| NO ANSWER | 4 | 2 | 1 | | 1 | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

The distribution of reasons given for net change in earnings was similar to July's. Nearly 60 percent attributed higher earnings to sales volume and nine percent attributed them to higher prices (Table 14). Forty-six (46) percent felt that a loss in sales volume was principally responsible for their lower earnings and 27 percent pointed to factor costs.

## Employment

While small business employment levels have remained remarkably high given a deteriorating economy, cracks began to emerge in October. More firms decreased the size of their workforces than increased them the prior three months though the relative size of each resulted in no net change. Expected employment changes for the next three months dipped into negative numbers. Even the soaring current job openings indicator exhibited signs of decay. Changes in small business employment levels lag many other changes in small business activity. But, owners are now reluctantly concluding that staffing levels must be reduced.

TABLE 14

PRIMARY REASONS FOR EARNINGS CHANGE

| REASON FOR HIGHER NET EARNINGS | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| SALES VOLUME | 59 | 58 | 57 | | 58 | 58 | 55 | 58 |
| HIGHER PRICES | 10 | 11 | 11 | | 9 | 11 | 9 | 9 |
| FACTOR COSTS* | 6 | 6 | 7 | | 5 | 4 | 6 | 5 |
| SEASONALITY | 15 | 19 | 18 | | 20 | 19 | 25 | 21 |
| OTHER; NA | 10 | 6 | 7 | | 8 | 8 | 5 | 7 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| REASON FOR LOWER NET EARNINGS | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| SALES VOLUME | 41 | 39 | 45 | | 44 | 45 | 44 | 46 |
| FACTOR COSTS* | 23 | 28 | 27 | | 22 | 19 | 28 | 27 |
| SEASONALITY | 16 | 17 | 15 | | 23 | 21 | 14 | 13 |
| OTHER; NA | 20 | 15 | 13 | | 11 | 15 | 14 | 14 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

** includes labor, material, and financing costs*

Fourteen (14) percent of respondents indicated that they had increased the number of employees working for them in the last three months by an average of 3.8 employees (Table 15). But 17 percent indicated that they had decreased their workforces by an average of 3.2 employees. The result was a wash. Operating small businesses did not expand employment in the last three months, the first failure to provide positive totals in the period since 1982. This outcome was unexpected given July's plans, indicating that the need for workers was falling more rapidly than small business owners had anticipated.

In absolute terms, the demand for employees remained relatively high. The number of firms with at least one current job opening edged lower in October. Yet, 19 percent reported a job opening (Table 16), most for skilled employees.

TABLE 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

| EMPLOYMENT CHANGE | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| INCREASED | 16 | 16 | 17 | | 12 | 16 | 21 | 14 |
| - SEASONAL | 5 | 5 | 6 | | 3 | 6 | 11 | 5 |
| - NON-SEASONAL | 11 | 11 | 11 | | 9 | 10 | 10 | 9 |
| DECREASED | 13 | 13 | 15 | | 18 | 15 | 13 | 17 |
| - SEASONAL | 4 | 5 | 5 | | 9 | 5 | 4 | 5 |
| - NON-SEASONAL | 9 | 8 | 10 | | 9 | 10 | 9 | 12 |
| NO CHANGE | 67 | 69 | 68 | | 70 | 69 | 66 | 68 |
| NO ANSWER | 4 | 2 | * | | * | * | * | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| NUMBER OF EMPLOYEES | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| INCREASED (PER FIRM INCREASING) | 3.8 | 3.9 | 3.3 | | 3.3 | 4.7 | 3.8 | 3.8 |
| DECREASED (PER FIRM DECREASING) | 4.7 | 3.3 | 3.0 | | 4.6 | 5.2 | 6.2 | 3.2 |
| AVERAGE NET CHANGE PER ALL FIRMS | +.25 | +.44 | +.12 | | -.39 | +.02 | +.36 | +.01 |

Job openings, inverted, acts as a good predictor of unemployment. Therefore, while we can expect that unemployment will soon rise, the increase should be relatively small. Modest unemployment increases brake the overall decline, slowing it and making it less severe. This condition softens the most pessimistic edge of small business owner views. However, relatively high levels of job openings have preceded prior recessions by as little as six months.

More small business owners planned to decrease employment levels (14%) than increase them (12%) (Table 17). October's plans represented a sharp decline from July (seasonally adjusted) and

October one year ago. Though employment plans in October, 1985, slipped to a net +1 percent, the month's plans were the most unfavorable in seven years. In addition, last quarter plans overestimated employment gains. A repeat performance could reduce employment even further and dry up a large number of current job openings. However, the economy appears to be facing the odd condition of less employment with a relatively stable unemployment rate.

TABLE 16

CURRENT JOB OPENINGS

| CURRENT JOB OPENINGS | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| YES | 21 | 25 | 23 | | 21 | 21 | 20 | 19 |
| - SKILLED | 14 | 16 | 15 | | 15 | 14 | 15 | 14 |
| - UNSKILLED | 3 | 4 | 3 | | 3 | 3 | 2 | 2 |
| - BOTH | 4 | 5 | 5 | | 3 | 4 | 3 | 3 |
| NO | 77 | 74 | 77 | | 79 | 78 | 79 | 80 |
| NO ANSWER | 2 | 1 | * | | * | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

| NET LABOR FORCE CHANGE EXPECTATIONS | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| INCREASE | 16 | 18 | 16 | | 19 | 23 | 16 | 12 |
| SAME | 75 | 69 | 73 | | 72 | 69 | 72 | 72 |
| DECREASE | 8 | 11 | 10 | | 8 | 6 | 10 | 14 |
| NO ANSWER | 1 | 2 | 1 | | 1 | 2 | 2 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

## Inventory

The customary third quarter inventory build-up did not occur this year. Just 15 percent made net additions to inventory while 20 percent drew down on them for a net -5 percent (Table 18). This data series originated in October, 1982. So, the capacity to compare its current performance to performance at other points in time is severely constrained. Nevertheless, the only other net negative number recorded for the third quarter was recorded in 1982.

TABLE 18

INVENTORY CHANGE IN PRIOR QUARTER

| INVENTORY CHANGE | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| INCREASE | 20 | 20 | 18 | | 16 | 19 | 19 | 15 |
| SAME | 43 | 46 | 46 | | 43 | 44 | 44 | 46 |
| DECREASE | 16 | 14 | 16 | | 21 | 18 | 16 | 20 |
| NOT APPLIC. | 19 | 18 | 19 | | 20 | 18 | 20 | 18 |
| NO ANSWER | 2 | 2 | 1 | | * | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Small business owners appeared to have their inventories under control. A net three percent believed inventories "too large," the same as in July and a three percentage point improvement from September (Table 19). With the rapid decline in sales, the inventory status is remarkably good. The rebound from September was particularly encouraging. Yet, a net -3 percent (percent "too small" minus percent "too large") remained historically poor and indicated that small business owners still needed to watch their inventories carefully.

With a bleak sales forecast (see, Sales) and inventories still too large, logic dictated that small business owners on balance would continue to try to draw down inventories in the coming months. Inventory plans for the fourth quarter suggested that small business owners expected to do precisely that. Fifteen (15) percent planned net additions while 19 percent planned net draws (Table 20).

## Capital Expenditures

Despite the slowing economy, the frequency and size of capital expenditures made by small business owners over the last three to six months remained unchanged. Fifty-six (56) percent of all

TABLE 19

CURRENT INVENTORY SATISFACTION

| INVENTORY LEVEL | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| TOO LARGE | 10 | 10 | 12 | | 13 | 10 | 11 | 13 |
| ABOUT RIGHT | 57 | 58 | 54 | | 55 | 58 | 57 | 56 |
| TOO LOW | 10 | 10 | 10 | | 9 | 10 | 9 | 10 |
| NOT APPLIC. | 21 | 20 | 21 | | 21 | 18 | 21 | 18 |
| NO ANSWER | 2 | 2 | 3 | | 2 | 4 | 2 | 3 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

| PLANNED INVENTORY CHANGE | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| ADD | 17 | 17 | 16 | | 22 | 19 | 17 | 15 |
| NO CHANGE | 46 | 44 | 44 | | 43 | 47 | 47 | 44 |
| DECREASE | 17 | 12 | 17 | | 13 | 12 | 13 | 19 |
| NOT APPLIC. | 20 | 20 | 17 | | 17 | 15 | 17 | 15 |
| NO ANSWER | 3 | 2 | 6 | | 5 | 7 | 6 | 7 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

spondents reported making at least one capital expenditure during the period, up one percentage point from July and the same as last October (Table 21). The frequency of expenditures on equipment and vehicles actually appeared to rise somewhat, though the trend in purchases of land and buildings was generally down.

The size of the expenditure made were stable as well. Forty-one (41) percent in October reported expenditures amounting to $10,000 or less, the identical figure as in July and only two percentage points different from last October (Table 22). Similarly, 11 percent reported expenditures of $100,000 or more, the same

as in July and only one percentage point different than one year ago.

Capital expenditure performance proved the bright spot in October's report. But, why was it so different from the other performance measures? One possibility is that prior commitments were honored. Another is that small business continues to emphasize productivity increases in the face of labor shortages and labor cost rises. Under either circumstance, the numbers have to decline soon and plans for the coming three to six months indicated that they will.

TABLE 21

PERCENTAGES MAKING CAPITAL EXPENDITURES IN LAST SIX MONTHS

| TYPE OF EXPENDITURE | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| ALL TYPES* | 56 | 55 | 56 | | 57 | 55 | 55 | 56 |
| - EQUIPMENT, VEHICLES | 44 | 44 | 46 | | 48 | 46 | 46 | 47 |
| - ADDED BUILDINGS | 7 | 7 | 6 | | 5 | 6 | 6 | 6 |
| - IMPROVED BUILDINGS | 16 | 18 | 16 | | 17 | 16 | 16 | 17 |
| - LAND | 4 | 4 | 4 | | 4 | 4 | 3 | 3 |

** percentage of firms making one or more capital expenditures*

Just 27 percent planned capital outlays in the next three to six months, the fewest excepting September, since October, 1982 (Table 23). The change in capital spending plans is better characterized as erosion than as a drop. Yet, with fewer owner planning outlays, the frequency and size of expenditures made should soon decline.

## Index of Small Business Optimism

The Index of Small Business Optimism fell off the proverbial cliff between July and October (Chart 5). The Index tumbled 9 percent, placing the measure at its lowest point since April, 1980. But not only was the Index at its lowest point in over a decade, it was the fourth worst Index score in survey history.

TABLE 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

| AMOUNTS EXPENDED ($1,000s) | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| UNDER 1 | 8 | 7 | 7 | | 5 | 7 | 6 | 5 |
| 1-4 | 22 | 20 | 20 | | 21 | 21 | 21 | 21 |
| 5-9 | 13 | 13 | 16 | | 15 | 14 | 14 | 15 |
| 10-19 | 18 | 21 | 21 | | 19 | 20 | 18 | 22 |
| 20-49 | 18 | 17 | 16 | | 18 | 19 | 19 | 18 |
| 50-99 | 9 | 11 | 8 | | 10 | 9 | 10 | 8 |
| 100-499 | 9 | 8 | 10 | | 10 | 9 | 9 | 9 |
| 500-999 | 2 | 2 | 2 | | 1 | 1 | 1 | 1 |
| 1,000+ | 1 | 1 | * | | 1 | * | 1 | 1 |
| TOTAL- | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

| EXPECT CAPITAL EXPENDITURE | 1987 OCT. % | 1988 OCT. % | 1989 OCT. % | | 1990 JAN. % | 1990 APR. % | 1990 JULY % | 1990 OCT. % |
|---|---|---|---|---|---|---|---|---|
| YES | 30 | 34 | 31 | | 35 | 32 | 29 | 27 |
| NO | 55 | 50 | 54 | | 50 | 52 | 57 | 59 |
| DON'T KNOW | 12 | 11 | 12 | | 12 | 12 | 11 | 11 |
| NO ANSWER | 3 | 5 | 3 | | 3 | 3 | 3 | 3 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

All three Index components were weak. However, general expectations proved far and away the weakest of the weak (Table 24). It cast a dismal picture. General expectations were so bad that their source had to lay beyond economic conditions. The Middle East, wavering and divided political leadership, continued forecasts of impending economic doom and general conditions probably all contributed. But it is not coincidental that the factors over which small business owners have least control were precisely the factors in which they had least confidence.

TABLE 24

INDEX OF SMALL-BUSINESS OPTIMISM
BY MAJOR COMPONENTS

| INDEX COMPONENTS | 1987 OCT. | 1988 OCT. | 1989 OCT. | | 1990 JAN. | 1990 APR. | 1990 JULY | 1990 OCT. |
|---|---|---|---|---|---|---|---|---|
| GENERAL EXPECTATIONS[1] | 107.5 | 107.3 | 108.3 | | 109.3 | 114.4 | 105.0 | 89.3 |
| CURRENT STATUS[2] | 105.7 | 106.3 | 104.4 | | 100.0 | 101.3 | 103.0 | 98.7 |
| SPENDING PLANS[3] | 112.0 | 113.7 | 112.0 | | 118.3 | 118.7 | 113.0 | 107.0 |
| INDEX[4] | 108.3 | 103.7 | 108.1 | | 109.2 | 111.9 | 106.8 | 89.2 |
| INDEX[5] 1978=100 | 102.3 | 100.9 | 102.1 | | 99.8 | 100.8 | 98.2 | 92.3 |

*1 expected business conditions, climate for expansion, expected real sales volume, expected credit conditions*

*2 current job openings, current inventory satisfaction, change in net earnings*

*3 plans to hire, make capital expenditures, add to inventories*

*4 index numbers*

*5 seasonally adjusted*

## Single Most Important Problem

Changes in the economic climate began to appear in small business owner views of their single most important problem. Yet, the surprising element was not how much the distribution of problems changed between July and October or between April and October, but how little they had changed.

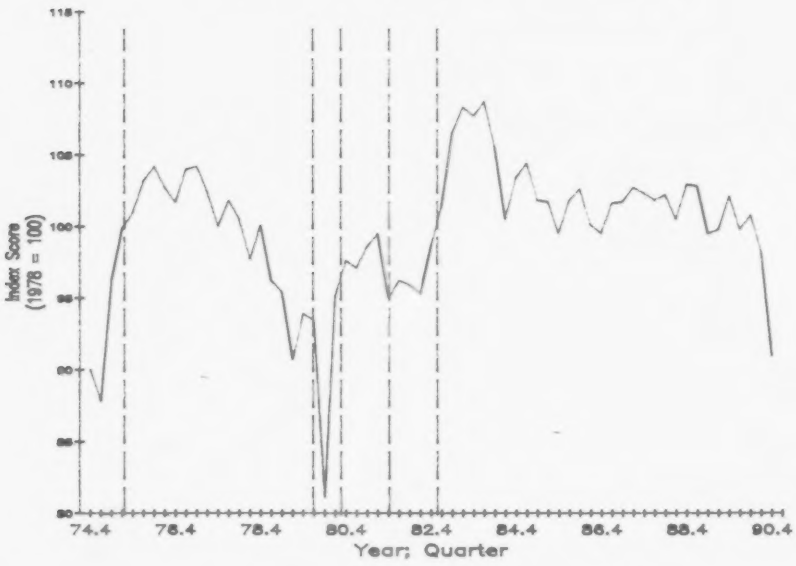
"Taxes" once again was considered the single most important problem by more small business owners than was any other. October

represented the 33rd consecutive quarter in which "Taxes" occupied the top position. And, the recent budget agreement guaranteed that "Taxes" would continue its monopoly on the number one slot into the foreseeable future.

"Government Regulation(s)/Red Tape" easily held onto the second position. But from that point, subtle changes began to occur. The third most frequently cited single most important problem remained "Poor Sales" though the number citing it rose three percentage points from July. The increase reflected the changing sales climate reported earlier (see, Sales).

CHART 5

INDEX OF SMALL BUSINESS OPTIMISM




The proportion citing "Inflation" also rose. While inflation remained a comparatively modest problem, the increase from July reflected growing problems with price increases (see, Prices). At the same time, the three percentage point decline in the number offering the "Cost of Labor" mirrored the loosening labor market (see, Employment) and the greater control small employers now seem to have over their wage costs (see, Compensation).

## Regional Conditions

The regional Indices of Small Business Optimism fell sharply in every part of the country. No region escaped. The smallest decline, registered in the West South Central region, was still seven

percent. The largest, registered in Mid-Atlantic region, was 12 percent. Thus, comparison of how well regions are doing relatively must be viewed in the context of significant overall decline.

TABLE 24

SINGLE MOST IMPORTANT PROBLEM

| SINGLE MOST IMPORTANT PROBLEM | 1990 JAN. RANK | JAN. % | 1990 APR. RANK | APR. % | 1990 JULY RANK | JULY % | 1990 OCT. RANK | OCT. % |
|---|---|---|---|---|---|---|---|---|
| TAXES | 1 | 22 | 1 | 23 | 1 | 23 | 1 | 23 |
| INFLATION | 8 | 4 | 8 | 4 | 8 | 4 | 7 | 6 |
| POOR SALES | 3 | 11 | 3 | 10 | 3 | 11 | 3 | 14 |
| INTEREST RATES & FINANCING | 6 | 7 | 6 | 7 | 7 | 7 | 6 | 7 |
| COST OF LABOR | 6 | 7 | 6 | 7 | 6 | 8 | 8 | 5 |
| GOVT. REG(S)/ RED TAPE | 2 | 18 | 2 | 18 | 2 | 18 | 2 | 17 |
| COMPETITION/ LARGE BUS. | 4 | 10 | 4 | 9 | 5 | 9 | 4 | 9 |
| LABOR QUALITY | 4 | 10 | 4 | 9 | 4 | 10 | 4 | 9 |
| SHORTAGE OF FUEL, MATERIAL | 9 | * | 9 | * | 9 | * | 9 | * |
| OTHER;N/A | - | 11 | - | 13 | - | 10 | - | 10 |
| TOTAL | - | 100 | - | 100 | - | 100 | - | 100 |

Small business owners in the West South Central region produced the nation's highest regional index, breaking the grip that owners in the Pacific enjoyed for over two years (Chart 8). The West South Central region is, of course, the nation's "oil patch," which has benefited from recent increases in the price of oil. Though the region was making a comeback from the bust in oil and agricultural prices in the early 1980s, the reversal in oil prices accelerated the improvement. However, even with oil prices higher, small business owners in the region could still only produce an Optimism Index marginally higher than those in the Mountain (Chart 8), Pacific (Chart 8) and West North Central (Chart 7) regions.

In the mid to late 1980s, the place to own a business was along the east coast. Small business owners in New England, the Mid-Atlantic and South Atlantic regions consistently provided the

REGIONAL INDICES OF SMALL BUSINESS OPTIMISM
AS A PERCENTAGE OF THE NATIONAL INDEX

CHART 6
NEW ENGLAND, MID-ATLANTIC, SOUTH ATLANTIC REGIONS

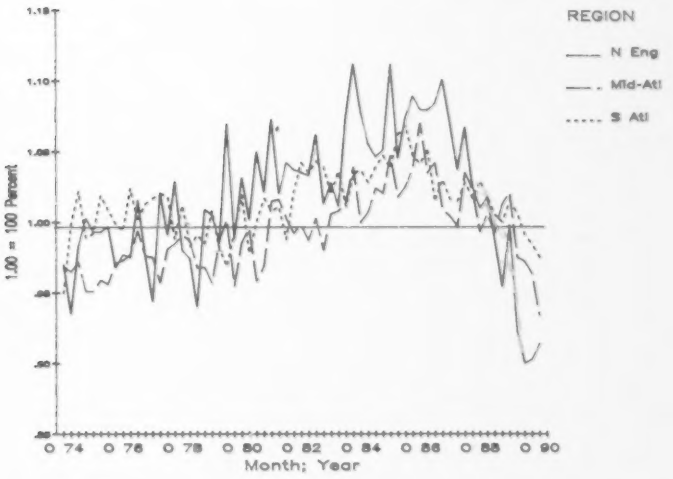



CHART 7
EAST SOUTH CENTRAL, GREAT LAKES, PLAINS REGIONS

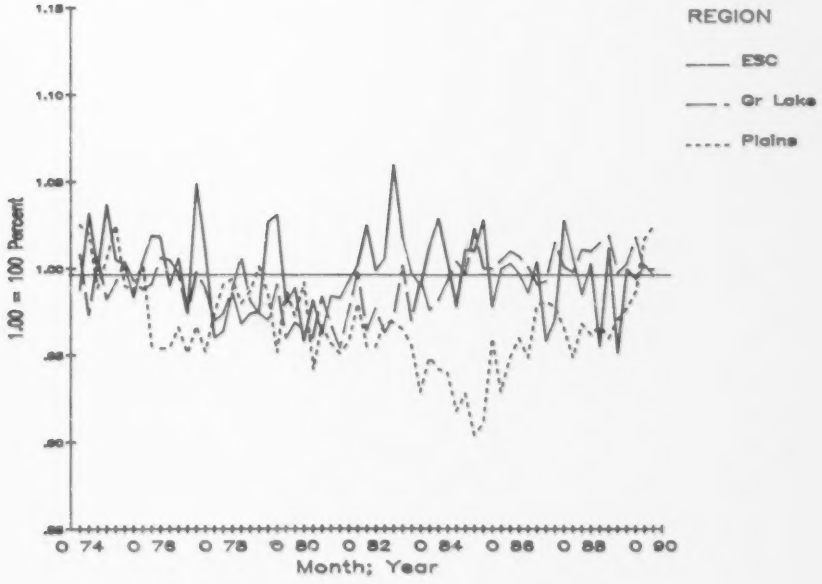
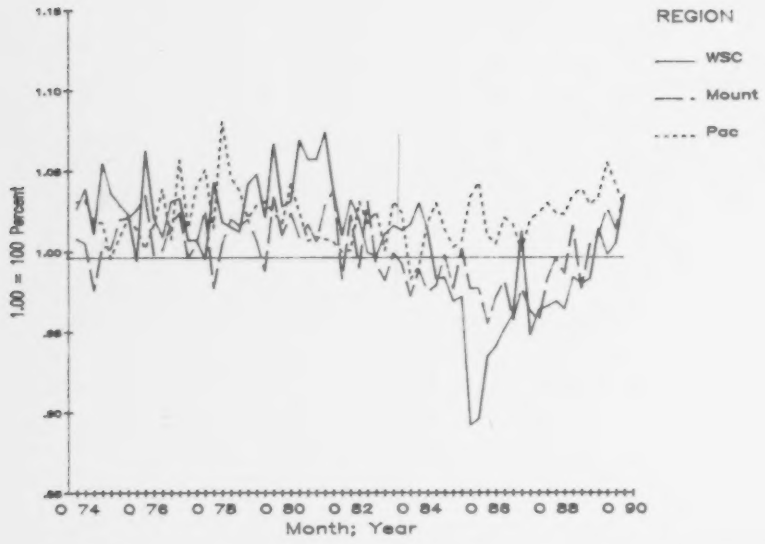


CHART 8
WEST SOUTH CENTRAL, MOUNTAIN, PACIFIC REGIONS




nation's highest regional indices. By late 1990 the situation was reversed. The three regions along the east coast produced the three lowest indices (Chart 6).

(N)The Great Lakes (Chart 7) and the East South Central (Chart 7) fell between.

APPENDIX

Table A-1
Description of Industry Classification

| Industry | Industry Examples |
|---|---|
| Construction | Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, highway and bridge, etc.) |
| Manufacturing/ Mining | (Includes dairy processor, printer, publisher machine shop, oil field service, etc.) |
| Transportation/ Communication | Truckers, movers, warehouse, travel agent, broadcasters, public utilities |
| Wholesale | (Includes manufacturer's representative, grain elevator, distributor) |
| Retail | (Includes service station, restaurant, bar, clothing store, flower shop) |
| Agriculture | Veterinarian, forestry, fishing, nursery |
| Financial Services | Finance, insurance, real estate |
| Services | Beauty salon, garage, motel, repair service, bookkeeper, photographer, funeral director, credit bureau, laundry |
| Professional Services | Physician, dentist, engineer, architect, accountant, nursing home operator, lawyer |

Table A-2
Definition of Regions

| Region | States |
|---|---|
| New England | Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont |
| Mid-Atlantic | New Jersey, New York, Pennsylvania |
| Great Lakes | Illinois, Indiana, Michigan, Ohio, Wisconsin |
| Plains | Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota |
| South Atlantic | Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia (includes Washington, DC) |
| East South Central | Alabama, Kentucky, Mississippi, Tennessee |
| West South Central | Arkansas, Louisiana, Oklahoma, Texas |
| Mountain | Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming |
| Pacific | Alaska, California, Hawaii, Oregon, Washington |

Table A-3
Profile of Respondents

| Industry | Percent | Number |
|---|---|---|
| Construction | 14 | 292 |
| Manufacturing | 14 | 295 |
| Transportation/Communication | 3 | 68 |
| Wholesale | 8 | 170 |
| Retail | 28 | 592 |
| Agriculture | 5 | 113 |
| Financial Services | 7 | 169 |
| Service | 14 | 288 |
| Professional Services | 7 | 152 |
| No Answer | * | 1 |
| Total | 100 | 2140 |

| Employee Size | Percent | Number |
|---|---|---|
| 1 - 2 | 16 | 345 |
| 3 - 5 | 30 | 634 |
| 6 - 9 | 19 | 405 |
| 10 - 14 | 11 | 232 |
| 15 - 19 | 6 | 138 |
| 20 - 39 | 10 | 208 |
| 40 or More | 8 | 165 |
| No Answer | * | 13 |
| Total | 100 | 2140 |

| Region | Percent | Number |
|---|---|---|
| New England | 5 | 113 |
| Mid-Atlantic | 10 | 219 |
| South Atlantic | 13 | 271 |
| Great Lakes | 19 | 415 |
| East South Central | 5 | 102 |
| West South Central | 10 | 220 |
| Plains | 12 | 256 |
| Mountain | 9 | 183 |
| Pacific | 17 | 361 |
| Total | 100 | 2140 |

# NFIB QUARTERLY ECONOMIC SURVEY

**Please circle the appropriate answers or fill in the blanks.**

1. What is your form of business organization?

   [1] Proprietorship [2] Partnership [3] Corporation 1

2. Please classify your major business activity using one of the categories of examples below. (If more than one applies, circle ***the one*** which contributes the most toward your gross sales or total revenues.)

   [1] Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, *etc.*)
   [2] Manufacturing and mining (including dairy processor, printer, publisher, *etc.*)
   [3] Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, *etc.*)
   [4] Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., *etc.*) 2
   [5] Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, *etc.*)
   [6] Agriculture, veterinarian, forestry, landscaping, fisheries, *etc.*
   [7] Financial, insurance, real estate, bank, savings & loan, *etc.*
   [8] Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, *etc.*
   [9] Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, *etc.*
   [10] Other (please describe)_____

3. What is the single most important problem facing your business today? (Please circle only **ONE** of the following):

   [1] Taxes
   [2] Inflation
   [3] Poor sales
   [4] Interest rates & financing
   [5] Cost of labor
   [6] Government regulation(s) & red tape
   [7] Competition from large businesses
   [8] Quality of labor
   [9] Shortage of fuels, materials or goods 3
   [0] Other _____ (please explain)

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

   [1] Yes [2] No [3] Uncertain 4

   4a. Why? (Circle **ONE** answer – ***most important reason***)

   [1] Economic conditions
   [2] Sales prospects
   [3] Financing & interest rates
   [4] Cost of expansion
   [5] Other _____ (please explain) 5

5. About the economy in general, do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

   [1] Much better
   [2] Somewhat better
   [3] About the same
   [4] Somewhat worse
   [5] Much worse
   [6] Don't know 6

6. During the last 3 months or calendar quarter, what were your gross sales or revenues?

   [1] Under $12,500
   [2] $12,500–24,999
   [3] $25,000–49,999
   [4] $50,000–87,499
   [5] $87,500–199,999
   [6] $200,000–374,999
   [7] $375,000–749,999
   [8] $750,000 or more 7

   6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

   [1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 8

   6b. If higher or lower, by approximately what percentage?

   [1] Less than 6%
   [2] 6%–10%
   [3] 11%–15%
   [4] 16%–20%
   [5] 21%–25%
   [6] 26%–35%
   [7] 36%–50%
   [8] 51% or more 9

7. Were your net earnings or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

   [1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 10

   7a. If higher or lower, by approximately what percentage?

   [1] Less than 6%
   [2] 6%–10%
   [3] 11%–15%
   [4] 16%–20%
   [5] 21%–25%
   [6] 26%–35%
   [7] 36%–50%
   [8] 51% or more 11

7b. If higher or lower, what is the ***most important reason***? (Circle only **ONE**)

[1] Sales volume
[2] Labor costs
[3] Cost of materials
[4] Availability of materials
[5] Received higher prices for your product or service
[6] Financing costs
[7] Usual seasonal change
[8] Other _____ (Specify)

12

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***?

[1] Go up a lot
[2] Go up a little
[3] Stay the same
[4] Go down a little
[5] Go down a lot
[6] Don't know

13

9. How are your average selling prices now compared to three months ago?

[1] Lower now
[2] No difference
[3] Higher now
[4] Don't know

14

9a. If ***higher or lower***, by what percent, on an average?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

15

10. In the ***next three months***, do you plan to ***change*** the average selling prices of your goods and/or services?

[1] Yes, raise prices
[2] Yes, lower prices
[3] No change
[4] Don't know

16

10a. If raise or lower, by what percent, ***on average***?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

17

11. How many employees do you have full and part-time ***including yourself***?

[1] One
[2] Two
[3] 3–5
[4] 6–9
[5] 10–14
[6] 15–19
[7] 20–39
[8] 40 or more

18

12. During the ***last three months***, did the ***total*** number of employees in your firm increase, decrease, or stay about the same?

[1] Increased by ____ employee(s)
[2] Decreased by ____ employee(s)
[3] Stayed the same

19-21

12a. If the ***total number*** of employees increased or decreased, was this change due primarily to ***seasonal factors*** affecting your business?

[1] Yes
[2] No

22

13. In the ***next three months***, do you expect to increase or decrease the total number of people working for you?

[1] Increase
[2] Keep the same
[3] Decrease

23

14. Do you have any job openings that you are ***not*** able to fill right now?

[1] Yes, for skilled labor
[2] Yes, for unskilled labor
[3] Yes, both skilled and unskilled labor
[4] No

24

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation):

[1] Less than one month
[2] One month, but less than three months
[3] Three months, but less than six months
[4] Six months or more

25

15. During the last three months, did you increase or decrease your inventories?

[1] Increase
[2] About the same
[3] Decrease
[4] Not appropriate

26

15a. If increase or decrease, by approximately what percent?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50%
[8] 51% or more

27

16. At the present time, do you feel your inventories are too large, about right, or inadequate?

[1] Too large
[2] About right
[3] Too low
[4] Not appropriate

28

16a. Looking ahead to the next three to six months, do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

[1] Add
[2] Keep the same
[3] Decrease
[4] Not appropriate

29

**(See next page)**

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

[1] Much higher [2] Higher [3] Same [4] Lower [5] Much lower [6] Don't know [7] Inapplicable, do not borrow regularly 30

17a. Are these loans easier or harder to get than they were ***three months ago***?

[1] Easier [2] Same [3] Harder [4] Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

[1] Easier [2] Same [3] Harder [4] Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? _____ % or Prime + _____ 33-35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

| | | |
|---|---|---|
| Equipment, Vehicles | [1] Yes | 36 |
| Additional Buildings | [1] Yes | 37 |
| Improved Buildings | [1] Yes | 38 |
| Additional Land | [1] Yes | 39 |

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

[1] under $1,000 [2] $1,000-4,999 [3] $5,000-9,999 [4] $10,000-19,999 [5] $20,000-49,999 [6] $50,000-99,999 [7] $100,000-499,999 [8] $500,000-999,999 [9] $1 million or more 40

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

[1] Yes [2] No [3] Don't know 41

**PLEASE DO NOT REMOVE ADDRESS LABEL**

(Needed for compiling geographical and industry informatio

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

[1] Increase [2] Keep the same [3] Decrease [4] Don't know 42

21a. If Increase or Decrease, by what percentage on average?

[1] 1-2% [2] 3-4% [3] 5-6% [4] 7-8% [5] 9-10% [6] Over 10% [7] Don't know 43

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

[1] Increased [2] Kept the same [3] Decreased 44

22a. If Increased or Decreased, by what percentage on average?

[1] 1-2% [2] 3-4% [3] 5-6% [4] 7-8% [5] 9-10% [6] Over 10% 45

23. Please indicate the geographical area that best describes the community in which your business is located.

[1] A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
[2] A small city (population over 15,000 but under 100,000 in city and immediate area)
[3] A rural area (population under 15,000 in city and surrounding communities)

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The NFIB Foundation

# Quarterly Economic Report for Small Business

## Winter 1991

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## Winter 1991

Prepared by
**The NFIB Foundation**

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**QUARTERLY ECONOMIC REPORT**
**FOR SMALL BUSINESS**
**(REPORT NO. 70)**

The 70th in a series of quarterly economic reports based on survey data obtained during January 1991 by questionnaire from member firms of the National Federation of Independent Business, San Mateo, CA.

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SUMMARY OF RESULTS

by

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Small business owners continued to struggle through the recession, hoping to boost sales and earnings from low and decreasing bases. January's small business economic survey did indicate that the skid in small business economic activity had stopped, though evidence of a rebound was absent. Most January indicators of future business activity were lower than they had been in October. Only a sharp reversal in expected general business conditions kept the Index of Small Business Optimism from tumbling beneath October's level. The Index forecast that the recession will continue at least through the first quarter and into the second.

The last three months were difficult for small business owners. Activity across-the-board slowed appreciably. Sales reports were among the worst in the survey's 17 year history; earnings reports were little better. Small business owners responded by reducing employment, inventories and capital outlays, though the latter seemed least affected. Fewer prices increases and more price decreases were other responses. Anecdotes of severe credit pinches were again difficult to document. However, weak demand for small business loans may hide a problem that could erupt and wilt the recovery just as it begins to blossom.

Conditions are poor across the country. This is no "rolling recession" of the kind subject to much recent commentary. However, there are very regional elements to the recession. Small business owners in some parts of the country, most notably New England, seem to be faring much worse than are others.

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This report is based on a random sample survey of NFIB members conducted during the month of January, 1991. Two thousand three hundred and fifty-eight (2,358) small and independent business owners returned usable questionnaires from the 7,202 mailed for a 32.7 percent response rate. A profile of respondents is located in the Appendix.

Small business owners do not anticipate brighter days in the near future, though they don't forecast further deterioration, either. Sales expectations lay at the heart of the problem. Small businessmen and women anticipated sales would dip even further. As a result, employment, inventory and capital expenditure plans declined. Planned employee compensation increases were also less frequent, as were plans to raise selling prices. However, encouragement came from a reversal in the number who believed conditions were worsening. In January, more believed that business conditions would improve in the next three to six months than believed they would deteriorate further.

The war in the Middle East has had a modest direct impact on small business activity -- at least to this point. Those small business owners who provided their views before war broke out looked at the economy and their firm's economic activity in much the same light as did those who responded after. The major exception was the out-look for general business conditions. Owners responding after the outbreak of hostilities had a considerably more positive outlook. That optimism carried over into somewhat more frequent plans for net additions to inventory and the labor force. The data provided neither insights nor explanation for the improved outlook following the onset of the war.

Outlook

Small business owners judged the current business climate unfavorably. Very few believed the present a good time for small business expansion. However, owners were more optimistic about the next three to six months. More projected that conditions would improve than projected they would deteriorate further. Though views often differed sharply on these questions, comparatively few were uncertain about conditions or thought that conditions would stabilize at existing levels.

Just five percent believed the current climate favorable for small business expansion (Table 1). January's assessment was the same as October's and December's. The sharp decline in confidence which occurred in the third quarter, plateaued in the fourth. Yet, January's number was only two percentage points off the survey record low.

The proportion of small business owners with the opposite view on the climate for expansion was also the same in January as it was in October -- 74 percent. The major change occurred between July and October when uncertainty fell 11 percentage points and positive assessments fell nine. Thus, not only has there been a switch from positive to negative, but small business owners are more assured of their views as evidenced by the decline in the number expressing uncertainty.

"Economic Conditions" dominated the thinking of the overwhelming majority who had a negative or uncertain opinion of the current climate (Chart 1). Over four in five of the "negatives" and three in five of the "uncertains" cited general economic conditions as the primary reason for their view. The "positives" were more likely to point to "Sales Prospects."

TABLE 1

CLIMATE FOR SMALL-BUSINESS EXPANSION IN NEXT QUARTER

| GOOD TIME TO EXPAND | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| YES | 18 | 13 | 15 | | 17 | 14 | 5 | 5 |
| NO | 49 | 52 | 50 | | 46 | 54 | 74 | 74 |
| UNCERTAIN | 32 | 35 | 34 | | 36 | 32 | 21 | 20 |
| NO ANSWER | 1 | * | 1 | | 1 | * | * | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

"Financing & Interest Rates" appeared to influence small business owner assessments comparatively little. Just three percent of those who did not think the climate good for small business expansion cited finance as the primary reason. The figure was marginally higher among those who weren't certain. Curiously, 13 percent of those who believed the climate favorable (n=128) attributed their view to presumably favorable or improving financing conditions. While the recession undoubtedly diverted attention from other concerns, small business owners did not appear particularly concerned by credit problems. (See, Credit Conditions.)

More small business owners believed general business conditions would improve (27%) in the next three to six months than believed they would worsen (25%) (Table 2). (Seasonally adjusted, a net two perentage points more believed conditions would worsen.) Though January's sentiment was less positive than December's, it represented a significant reversal from October's low. The change over the last three months has been a huge 33 percentage points. Barring a major setback, owner attitudes about future general business conditions have hit bottom for this recession and are on the rebound.

The recession has brought another change in the small business outlook. Though sentiment is now divided almost equally between the optimists and pessimists, most owners expected conditions to change. That has not always been so. From October, 1984, through July, 1990, at least a majority in every quarter forecast "more of the same." January found that for the second consecutive quarter less than 40 percent believed general business conditions would stay about the same for the next three to six months.

Those in the financial services and manufacturing industries were most likely to express a positive view about conditions in the next three to six months. Those in agriculture were most likely to express a negative view.

CHART 1

"GOOD TIME TO EXPAND" BY REASON
FOR VIEW OF EXPANSION

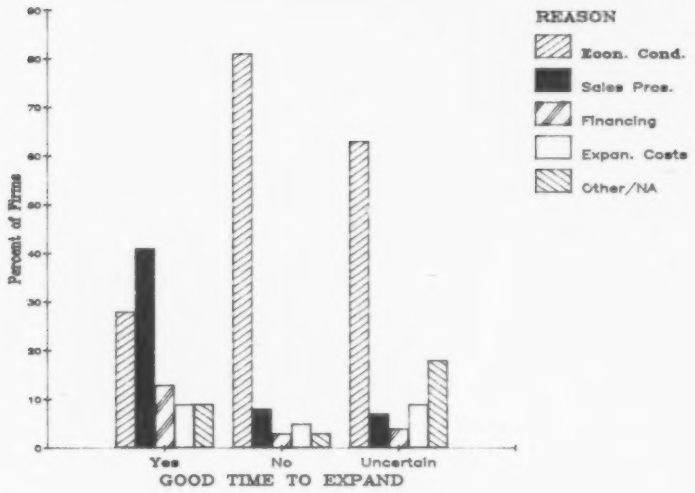



TABLE 2

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE
NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

| EXPECTED CONDITIONS | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| MUCH BETTER | 2 | 2 | 2 | | 2 | 1 | 1 | 3 |
| BETTER | 22 | 20 | 22 | | 20 | 16 | 11 | 24 |
| SAME | 54 | 58 | 57 | | 57 | 53 | 36 | 38 |
| WORSE | 16 | 11 | 13 | | 13 | 20 | 36 | 21 |
| MUCH WORSE | 1 | 2 | 1 | | 1 | 2 | 7 | 4 |
| DON'T KNOW | 5 | 7 | 5 | | 6 | 7 | 9 | 10 |
| NO ANSWER | 1 | * | * | | 1 | 1 | * | * |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

## Credit Conditions

Small business credit conditions have changed little in the last seven to eight months. A January reduction of 0.5 percent in the prime rate is the first real variation since spring. But, it is not fully reflected in this month's report. Evidence of a "credit crunch" remains elusive. Not only do the data on credit conditions again fail to establish its existence, but responses to questions on problems (see, Single Most Important Problem), reasons for owner assessments of the economy (see, Outlook) and reasons for earnings changes (see, Earnings) give no hint of a credit problem, let alone a crisis. However, weak borrowing demand may hide some credit pinches.

The availability of loans in the the last three months compared to the prior three was identical in July, October and January. Eleven (11) percent reported them "harder" to obtain and one percent reported them "easier" (Table 3). These numbers are not favorable. But by comparison to other recessionary periods, they are no worse and generally better. For example, borrowing difficulty was about the same in the 1981-82 recession as now (Chart 2). Borrowing was more difficult in the 1980 and the 1974-75 recessions. In April, 1980, over 30 percent reported borrowing more difficult. In October, 1979, -- not even a recessionary period -- 19 percent reported borrowing more difficult. Thus, the "credit crunch" continues to remain elusive.

Regional differences influence the perception of credit problems. Small businessmen and women in New England were clearly impacted by credit availability more than were owners in other parts of the country. Owners in the Mid-Atlantic, South Atlantic and

TABLE 3

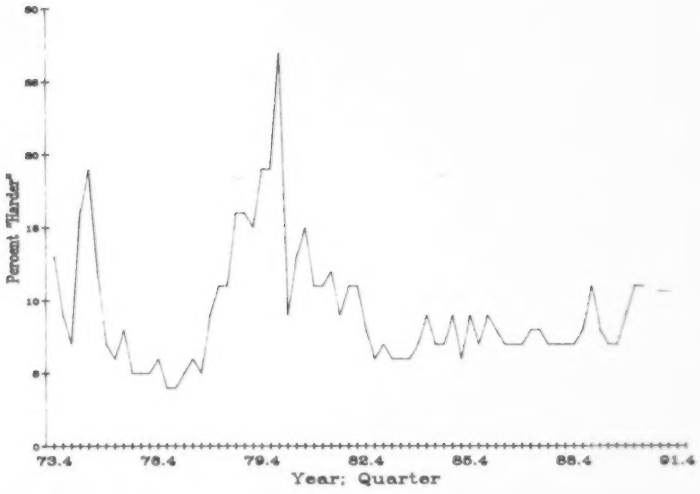
CURRENT AVAILABILITY OF LOANS
COMPARED TO AVAILABILITY IN PRIOR QUARTER

| LOAN AVAILABLITY | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| EASIER | 1 | 1 | 1 | | 1 | 1 | 1 | 1 |
| SAME | 29 | 27 | 25 | | 24 | 22 | 20 | 20 |
| HARDER | 7 | 8 | 7 | | 9 | 11 | 11 | 11 |
| DON'T KNOW | 2 | 2 | 3 | | 1 | 1 | 2 | 2 |
| DON'T BORROW; NO ANSWER | 61 | 62 | 64 | | 65 | 64 | 66 | 66 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

the East South Central regions also appeared to be encountering more difficulties than owners elsewhere. In contrast, those in the Great Lakes, Plains, and Mountain regions found loans relatively easier to aquire.

CHART 2

DIFFICULTY OBTAINING BUSINESS LOANS




The average rate paid for a short-term small business loan over the last three months was 11.9 percent, virtually the same rate that has been paid since the beginning of the year (Table 4). However, downward pressure is evident. More owners indicated that rates were lower (7%) in the last three months than in the three months before, compared to those who reported rates higher (4%) (Table 5). January's data represented a significant improvement from October when the comparable figures were 8 percent and 1 percent respectively. These reductions will be captured in average rate calculations made for subsequent reports.

Demand for credit in the fourth quarter remained low. Just 34 percent classified themselves "regular borrowers," the same as in October. While current regular borrowing activity is on a parallel with the number of regular borrowers throughout the past year, borrowing frequency has eroded over the last 24 months. The principal effect of low demand has been to ease any credit shortages that exist. Thus, as the nation emerges from recession, it is likely that shortages will grow more severe rather than being reduced.

Small businessmen and women assessed future credit conditions with little enthusiasm. Just one percent thought they would become

TABLE 4

INTEREST RATES PAID ON SHORT-TERM LOANS

| INTEREST RATE | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| UNDER 10% | 5 | 2 | 1 | | 1 | 1 | 1 | 2 |
| 10-12% | 36 | 36 | 32 | | 38 | 41 | 38 | 36 |
| 13-15% | 5 | 10 | 14 | | 12 | 11 | 9 | 9 |
| 16% OR MORE | 4 | 3 | 3 | | 3 | 2 | 3 | 3 |
| PRIME +1 | 28 | 28 | 29 | | 25 | 25 | 31 | 26 |
| PRIME +2 | 17 | 18 | 17 | | 18 | 18 | 15 | 21 |
| PRIME +3 OR MORE | 5 | 3 | 4 | | 3 | 2 | 3 | 3 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |
| AVERAGE RATE (%) | 11.1 | 12.0 | 12.2 | | 12.0 | 11.9 | 11.9 | 11.9 |

TABLE 5

CURRENT INTEREST RATES COMPARED TO
INTEREST RATES IN PRIOR QUARTER

| RELATIVE INTEREST RATES | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| MUCH HIGHER | * | 2 | * | | 1 | * | 1 | * |
| HIGHER | 12 | 25 | 7 | | 8 | 8 | 8 | 4 |
| SAME | 21 | 9 | 21 | | 21 | 24 | 23 | 22 |
| LOWER | 4 | 1 | 7 | | 4 | 2 | 1 | 7 |
| MUCH LOWER | * | * | * | | * | * | * | * |
| DON'T KNOW | 1 | 1 | 1 | | 1 | 2 | 1 | 1 |
| DON'T BORROW; NO ANSWER | 61 | 62 | 64 | | 65 | 64 | 66 | 66 |

"easier" compared to 13 percent who thought they would become "harder" (Table 6). January's forecast was somewhat more favorable than October's. Yet, the tenor was pessimistic. Lowering the prime rate during the month seemed to have little or no effect.

TABLE 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER
COMPARED TO CURRENT QUARTER

| CREDIT EXPECTATIONS | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| EASIER | 2 | 1 | 2 | | 1 | 1 | * | 1 |
| SAME | 26 | 24 | 22 | | 22 | 28 | 17 | 16 |
| HARDER | 9 | 9 | 8 | | 9 | 12 | 14 | 13 |
| DON'T KNOW | 2 | 4 | 4 | | 3 | 3 | 3 | 4 |
| DON'T BORROW; NO ANSWER | 61 | 62 | 64 | | 65 | 64 | 66 | 66 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Prices

Small business selling prices provide one of the infrequent positive elements in January's report. Comparatively few small businessmen and women raised prices in the prior three months, though the growing number lowering prices indicated creeping difficulties. Moreover, plans to raise prices in the next three months fell when seasonal factors alone would be expected to push them higher. The good news in these price data is that the temporary rise in oil prices appeared to have been passed through by the end of 1990. Yet, too much cannot be read into January numbers; they are largely recession-induced. Weak demand drives down prices.

Twenty-four (24) percent reported higher selling prices in the last quarter than in the quarter before (Table 7). Excepting June, 1990, January's report showed the fewest increases since late 1987. The number lowering prices moved in the opposite direction; they continued upward. Fourteen (14) percent, the most since 1986, reported lower average selling prices.

Price increases were concentrated in the latter stages of the production-distribution chain. Wholesalers most frequently reported raising prices (41%) followed by retailers (33%). The most frequent price cuts were found early in the chain -- agriculture (38%)

and construction (21%). One piece of good news was that the labor-driven service industries had among the most stable prices. Owners in each of the three (service, finance, professions) were less likely to raise prices than were small business owners generally.

Twenty-eight (28) percent planned to raise prices in the next three months, down two percentage points from October and four percentage points from one year ago (Table 8). Six percent planned lower average selling prices, the highest number since January, 1988. Since plans accurately reflect future price activity, January's plans indicate that price increases will become less frequent in the late winter and early spring.

Planned price increases were wide-spread. Those in the professional services (37%), wholesale (34%), retail (32%) and the services (29%) had the most frequent plans. The least frequent were held by those in agriculture (13%) and the financial services (15%).

TABLE 7

CURRENT AVERAGE SELLING PRICES COMPARED TO
PRIOR QUARTER'S AVERAGE SELLING PRICES

| AVERAGE SELLING PRICES | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| LOWER NOW | 12 | 8 | 9 | | 9 | 11 | 13 | 14 |
| NO DIFFERENCE | 57 | 58 | 52 | | 59 | 63 | 58 | 59 |
| HIGHER NOW | 29 | 29 | 36 | | 30 | 24 | 27 | 24 |
| < 1% | 1 | 1 | * | | 1 | * | 1 | * |
| 1.0-1.9% | 2 | 4 | 4 | | 4 | 3 | 2 | 2 |
| 2.0-2.9% | 4 | 5 | 5 | | 5 | 4 | 3 | 4 |
| 3.0-3.9% | 3 | 4 | 5 | | 4 | 3 | 4 | 4 |
| 4.0-4.9% | 3 | 4 | 5 | | 4 | 4 | 4 | 3 |
| 5.0-7.9% | 6 | 6 | 9 | | 6 | 5 | 6 | 6 |
| 8.0-9.9% | 2 | 1 | 2 | | 1 | 1 | 1 | 1 |
| 10% OR MORE | 8 | 3 | 4 | | 3 | 3 | 5 | 3 |
| NO ANSWER | * | 1 | 2 | | 2 | 1 | 1 | 1 |
| NO ANSWER | 2 | 5 | 3 | | 2 | 2 | 2 | 3 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 8

PLANNED PRICE CHANGES FOR THE NEXT QUARTER

| PLANNED PRICE CHANGES | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1990 JAN. % |
|---|---|---|---|---|---|---|---|---|
| LOWER | 5 | 2 | 3 | | 3 | 3 | 4 | 6 |
| NO CHANGE | 55 | 49 | 50 | | 56 | 58 | 49 | 48 |
| INCREASE | 27 | 30 | 32 | | 25 | 23 | 30 | 28 |
| < 1% | * | * | 1 | | 1 | 1 | 1 | * |
| 1.0-1.9% | 3 | 3 | 4 | | 3 | 2 | 2 | 3 |
| 2.0-2.9% | 3 | 4 | 5 | | 5 | 4 | 4 | 4 |
| 3.0-3.9% | 4 | 4 | 4 | | 3 | 3 | 4 | 3 |
| 4.0-4.9% | 5 | 4 | 5 | | 3 | 3 | 5 | 4 |
| 5.0-7.9% | 7 | 9 | 7 | | 6 | 5 | 8 | 8 |
| 8.0-9.9% | 1 | 1 | 1 | | 1 | 1 | 1 | 1 |
| 10% OR MORE | 3 | 3 | 3 | | 2 | 3 | 3 | 3 |
| DON'T KNOW | 1 | 3 | 2 | | 2 | 1 | 2 | 2 |
| DON'T KNOW | 12 | 13 | 13 | | 14 | 15 | 15 | 17 |
| NO ANSWER | 1 | 6 | 2 | | 2 | 1 | 2 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Compensation

The proportion of small business owners raising average employee compensation fell to its lowest point since the series was instituted in 1984. Only the second quarter of 1986 equalled the last quarter of 1990. In addition, the six percentage point decline from October's report was the sharpest yet recorded. Just 18 percent reported higher average compensation in the last three months relative to the prior three (Table 9). Over the last eight quarters an average of 26 percent raised average compensation. With average increases at 5.7 percent per firm raising compensation, the average increases spread across all firms was 1.0 percent.

Plans to raise employee compensation suggest that the frequency of increases established over the last three months is likely to hold over the next three. Twenty (20) percent planned increases in

the coming three months (Table 10). With average increases at 5.5 percent per firm planning them, the average increase across all firms was 1.1 percent. January's plans were two percentage points more frequent than October's, but the former is highly seasonal. A more appropriate comparison is with the prior three January's in which an average of 25 percent planned average compensation increases.

Employee compensation currently bears little responsibility for increases in small business selling prices. Not only is the evidence seen in the relative infrequency of reported increases and

TABLE 9

CHANGE IN AVERAGE COMPENSATION
OVER THE PRIOR QUARTER

| COMPENSATION CHANGE | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| INCREASED | 23 | 24 | 24 | | 27 | 29 | 24 | 18 |
| 1-2% | 3 | 3 | 3 | | 3 | 4 | 3 | 1 |
| 3-4% | 7 | 7 | 6 | | 8 | 7 | 7 | 2 |
| 5-6% | 6 | 7 | 7 | | 9 | 9 | 7 | 5 |
| 7-8% | 2 | 3 | 3 | | 2 | 2 | 3 | 5 |
| 9-10% | 1 | 2 | 3 | | 2 | 3 | 2 | 2 |
| OVER 10% | 3 | 5 | 2 | | 2 | 3 | 2 | 2 |
| NO ANSWER | 1 | * | 1 | | 1 | 1 | * | 1 |
| SAME | 70 | 69 | 70 | | 67 | 64 | 69 | 75 |
| DECREASED | 1 | 1 | 1 | | 1 | 1 | 2 | 2 |
| NO ANSWER | 6 | 6 | 5 | | 5 | 6 | 5 | 5 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| AVERAGE INCREASE | % | % | % | | % | % | % | % |
|---|---|---|---|---|---|---|---|---|
| FIRMS INCREASING | 6.0 | 5.9 | 5.8 | | 5.9 | 6.0 | 5.9 | 5.7 |
| ALL FIRMS | 1.4 | 1.4 | 1.4 | | 1.6 | 1.7 | 1.4 | 1.0 |

TABLE 10

PLANS TO CHANGE AVERAGE COMPENSATION
OVER THE NEXT QUARTER

| COMPEN-SATION CHANGE | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| INCREASE | 19 | 24 | 26 | | 22 | 17 | 18 | 20 |
| 1-2% | 2 | 2 | 2 | | 2 | 2 | 2 | 1 |
| 3-4% | 7 | 7 | 9 | | 7 | 6 | 6 | 2 |
| 5-6% | 10 | 9 | 9 | | 8 | 7 | 6 | 7 |
| 7-8% | 2 | 2 | 2 | | 2 | 1 | 1 | 7 |
| 9-10% | 2 | 2 | 2 | | 1 | 1 | 2 | 2 |
| OVER 10% | 1 | 1 | 1 | | 1 | * | * | 1 |
| DON'T KNOW | * | 1 | 1 | | 1 | * | 1 | * |
| NO ANSWER | * | * | * | | * | * | * | * |
| SAME | 63 | 63 | 61 | | 63 | 70 | 67 | 66 |
| DECREASE | 2 | 1 | 1 | | 1 | 1 | 2 | 2 |
| DON'T KNOW | 8 | 9 | 10 | | 12 | 9 | 10 | 10 |
| NO ANSWER | 3 | 3 | 2 | | 2 | 3 | 3 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| AVERAGE INCREASE | % | % | % | | % | % | % | % |
|---|---|---|---|---|---|---|---|---|
| FIRMS INCREASING | 5.5 | 5.9 | 5.5 | | 5.5 | 5.4 | 5.5 | 5.5 |
| ALL FIRMS | 1.3 | 1.4 | 1.4 | | 1.2 | 0.9 | 1.0 | 1.1 |

planned increases, but in the small number citing "Cost of Labor" as their single most important problem. The frequency of citation has fallen three percentage points in the last six months and is now at its lowest level since 1986. (See, Single Most Important Problem).

## Sales

Small business sales plunged over the last three months. The quarter's decline was the third consecutive quarterly tumble, all of which have been comparatively large. By January, 15 percent considered "Poor Sales" their single most important problem. (See, Single Most Important Problem). Worse still, over one-third of all owners expected sales to decline further in the next three months.

Substantially more small business owners reported sales lower in the last quarter compared to the prior quarter, than reported them higher. Just 25 percent related greater sales over the last three months than in the prior three; 36 percent related lower sales in the same time frames (Table 11). January, 1991, found the fewest reporting higher sales than any quarter since April, 1982.

TABLE 11

DOLLAR SALES VOLUME COMPARED TO PRIOR QUARTER'S DOLLAR SALES VOLUME

| DOLLAR SALES VOLUME | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| MUCH HIGHER | 2 | 4 | 3 | | 4 | 3 | 3 | 3 |
| HIGHER | 25 | 29 | 29 | | 27 | 34 | 27 | 22 |
| ABOUT THE SAME | 46 | 40 | 40 | | 39 | 41 | 43 | 39 |
| LOWER | 23 | 22 | 24 | | 25 | 18 | 23 | 30 |
| MUCH LOWER | 3 | 3 | 4 | | 5 | 3 | 4 | 6 |
| NO ANSWER | 1 | 2 | * | | * | 1 | * | * |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

The Index of Small Business Sales (seasonally adjusted) illustrates how badly sales have deteriorated (Chart 3). January's Index score fell 8 percent from October's and is now 14 percent lower than July's. January's Index rested at its lowest level since October, 1982.

Christmas is the critical season for most retailers. Yet, 12 percent more retailers reported lower sales than in the prior quarter, than reported sales higher during the same period. Small business owners in the services, wholesale and construction also fared poorly. Those in manufacturing and the financial services fared best, though each still found more with lower than with higher sales.

Not only were current sales poor, but small business owners expected them to deteriorate further. Thirty-one (31) percent anticipated sales would increase over the next three months; but, 37 percent anticipated sales would decline (Table 12). Comparing the net -6 percent (percent higher minus percent lower) to prior January sales expectations shows the grim view small business owners hold on sales. Last January a net +18 percent believed sales would improve; the prior January was +22 percent and the January before that was +23 percent. Sales expectations in January, 1991, were the bleakest with two solitary exceptions since the survey was instituted in 1973.

CHART 3

INDICES OF SMALL BUSINESS SALES
AND SMALL BUSINESS EARNINGS

Earnings

Small business earnings took another beating in the fourth quarter, reflecting the impact of the recession. Just 17 percent reported higher earnings in the last three months compared to the prior three; 44 percent reported them lower over the same period (Table 13). The Index of Small Business Earnings (seasonally adjusted) fell nine percent between October and January, and 19 percent between July and January (Chart 3). It is now at its lowest point since October, 1982. In addition, with sales expectations so low (see, Sales), it is likely the Index will fall further before it rebounds.

The most frequently cited reason for lower earnings was sales volume. Forty-nine (49) percent attributed their poorer earnings performance to sales (Table 14). January's number is three percentage points higher than October's, five percentage points higher

TABLE 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

| EXPECTED REAL SALES | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| GO UP A LOT | 7 | 8 | 7 | | 11 | 6 | 7 | 5 |
| GO UP A LITTLE | 36 | 36 | 36 | | 45 | 37 | 26 | 26 |
| STAY THE SAME | 33 | 29 | 28 | | 25 | 32 | 24 | 26 |
| GO DOWN A LITTLE | 16 | 18 | 20 | | 12 | 17 | 28 | 29 |
| GO DOWN A LOT | 4 | 4 | 5 | | 3 | 3 | 10 | 8 |
| DON'T KNOW | 3 | 3 | 4 | | 3 | 4 | 4 | 5 |
| NO ANSWER | 1 | 2 | * | | 1 | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 13

NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

| NET EARNINGS | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| MUCH HIGHER | 1 | 2 | 1 | | 2 | 2 | 1 | 1 |
| HIGHER | 21 | 21 | 18 | | 19 | 22 | 16 | 16 |
| SAME | 45 | 43 | 43 | | 41 | 43 | 44 | 37 |
| LOWER | 27 | 27 | 32 | | 31 | 29 | 33 | 37 |
| MUCH LOWER | 4 | 4 | 5 | | 6 | 3 | 3 | 7 |
| NO ANSWER | 2 | 3 | 1 | | 1 | 1 | 1 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

than last January's, and nine percentage points higher than January, 1989's. Growth in the number citing sales volume is directly tied to the recession. Factor costs and seasonality were cited less frequently than usual.

The distribution of reasons given for higher earnings was virtually unchanged from the prior quarter and one year ago (Table 14). Sales volume, and to a lesser extent seasonality, were the two most frequent reasons given.

TABLE 14

PRIMARY REASONS FOR EARNINGS CHANGE

| REASON FOR HIGHER NET EARNINGS | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| SALES VOLUME | 50 | 60 | 58 | | 58 | 55 | 58 | 58 |
| HIGHER PRICES | 6 | 9 | 9 | | 11 | 9 | 9 | 10 |
| FACTOR COSTS* | 4 | 6 | 5 | | 4 | 6 | 5 | 5 |
| SEASONALITY | 19 | 18 | 20 | | 19 | 25 | 21 | 22 |
| OTHER; NA | 21 | 8 | 8 | | 8 | 5 | 7 | 5 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| REASON FOR LOWER NET EARNINGS | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| SALES VOLUME | 38 | 40 | 44 | | 45 | 44 | 46 | 49 |
| FACTOR COSTS* | 20 | 21 | 22 | | 19 | 28 | 27 | 19 |
| SEASONALITY | 21 | 24 | 23 | | 21 | 14 | 13 | 17 |
| OTHER; NA | 21 | 15 | 11 | | 15 | 14 | 14 | 15 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

** includes labor, material, and financing costs*

Employment

Small business employment, along with sales and earnings, constituted the bleakest part of January's report. Operating small businesses suffered a substantial employment loss over the last

three months. The number with at least one current job opening fell sharply in the last month, indicating that unemployment would be moving much higher soon. And, the net percent planning to add employees in the coming three months forecasts a contraction in the total number of people working. The small business employment numbers which held up quite well for a long period have deflated rapidly.

TABLE 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

| EMPLOYMENT CHANGE | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1990 JAN. % |
|---|---|---|---|---|---|---|---|---|
| INCREASED | 13 | 14 | 12 | | 16 | 21 | 14 | 10 |
| - SEASONAL | 4 | 5 | 3 | | 6 | 11 | 5 | 3 |
| - NON-SEASONAL | 9 | 9 | 9 | | 10 | 10 | 9 | 7 |
| DECREASED | 17 | 13 | 18 | | 15 | 13 | 17 | 19 |
| - SEASONAL | 6 | 6 | 9 | | 5 | 4 | 5 | 8 |
| - NON-SEASONAL | 11 | 7 | 9 | | 10 | 9 | 12 | 11 |
| NO CHANGE | 70 | 70 | 70 | | 69 | 66 | 68 | 70 |
| NO ANSWER | * | 3 | * | | * | * | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| NUMBER OF EMPLOYEES | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1990 JAN. % |
|---|---|---|---|---|---|---|---|---|
| INCREASED (PER FIRM INCREASING) | 4.0 | 3.9 | 3.3 | | 4.7 | 3.8 | 3.8 | 2.9 |
| DECREASED (PER FIRM DECREASING) | 3.2 | 3.7 | 4.6 | | 5.2 | 6.2 | 3.2 | 4.1 |
| AVERAGE NET CHANGE PER ALL FIRMS | -.01 | +.05 | -.39 | | +.02 | +.36 | +.01 | -.45 |

Just 10 percent increased average employment over the last three months; 19 percent decreased it (Table 15). Most of the

gains and losses occurred among non-seasonal employees. The average job loss per firm decreasing employment was larger than the average gain among those increasing it. The result was a loss of .45 employees per firm, the largest such loss since the fourth quarter of 1982.

Current job openings, a good indicator of future employment, dipped in January. Just 12 percent reported one or more vacancies, most for skilled labor (Table 16). Holding at around 20 percent for most of the year, the number of vacancies contracted suddenly. As late as October, 19 percent had at least one vacancy, but it fell to 16 percent in November and then to 14 percent in December.

TABLE 16

CURRENT JOB OPENINGS

| CURRENT JOB OPENINGS | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1990 JAN. % |
|---|---|---|---|---|---|---|---|---|
| YES | 23 | 24 | 21 | | 21 | 20 | 19 | 13 |
| - SKILLED | 14 | 15 | 15 | | 14 | 15 | 14 | 10 |
| - UNSKILLED | 2 | 5 | 3 | | 3 | 2 | 2 | 1 |
| - BOTH | 7 | 4 | 3 | | 4 | 3 | 3 | 2 |
| NO | 75 | 75 | 79 | | 78 | 79 | 80 | 86 |
| NO ANSWER | 2 | 1 | * | | 1 | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

The outlook for small business employment is little better. Thirteen (13) percent indicated plans to made net labor force additions in the next three months; 10 percent planned net reductions (Table 17). January presented the poorest set of small business employment plans since 1981.

## Inventory

Small business inventory positions held up reasonably well despite rapidly declining sales. (See, Sales.) However, owners were obviously watching inventory levels closely. Relatively few made net additions to inventory in the prior three months and relatively few planned net additions in the next three.

Thirteen (13) percent increased their inventories in the last quarter; 25 percent decreased them (Table 18). Both were less favorable than typical January measurements. However, it had not reached 1982 levels. The percent increasing equalled January,

1983's, measure for the fourth quarter of 1982. But the percent decreasing was three points less. The slowdown in net additions to inventory began the prior quarter.

TABLE 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

| NET LABOR FORCE CHANGE EXPECTATIONS | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1990 JAN. % |
|---|---|---|---|---|---|---|---|---|
| INCREASE | 19 | 20 | 19 | | 23 | 16 | 12 | 13 |
| SAME | 74 | 69 | 72 | | 69 | 72 | 72 | 76 |
| DECREASE | 5 | 7 | 8 | | 6 | 10 | 14 | 10 |
| NO ANSWER | 2 | 4 | 1 | | 2 | 2 | 2 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 18

INVENTORY CHANGE IN PRIOR QUARTER

| INVENTORY CHANGE | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1990 JAN. % |
|---|---|---|---|---|---|---|---|---|
| INCREASE | 16 | 17 | 16 | | 19 | 19 | 15 | 13 |
| SAME | 44 | 42 | 43 | | 44 | 44 | 46 | 41 |
| DECREASE | 18 | 19 | 21 | | 18 | 16 | 20 | 25 |
| NOT APPLIC. | 21 | 19 | 20 | | 18 | 20 | 18 | 20 |
| NO ANSWER | 1 | 3 | * | | 1 | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Current inventory satisfaction was one of the most, if not the most positive, element in January's report. Thirteen (13) percent indicated inventories were "Too Large," while nine percent indicated they were "Too Small" (Table 19). Those levels are identical to last January's and more favorable than January, 1988's. Perhaps most important, they exhibit no deterioration from October on a seasonally adjusted basis.

TABLE 19

CURRENT INVENTORY SATISFACTION

| INVENTORY LEVEL | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| TOO LARGE | 17 | 12 | 13 | | 10 | 11 | 13 | 13 |
| ABOUT RIGHT | 47 | 55 | 55 | | 58 | 57 | 56 | 56 |
| TOO LOW | 12 | 10 | 9 | | 10 | 9 | 10 | 9 |
| NOT APPLIC. | 23 | 21 | 21 | | 18 | 21 | 18 | 20 |
| NO ANSWER | 2 | 1 | 2 | | 4 | 2 | 3 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Small business owners continue to approach inventories cautiously. With sales expected to be weak in the next three months, they are in no rush to build up inventories. Eighteen (18) percent planned net inventory additions in the coming quarter compared to 15 percent who planned net decreases (Table 20). Since the first quarter is normally a time for inventory building, the +2 percent (percent planning increases minus percent planning decreases) is a poor number. The last time plans fell that low was in 1982.

## Capital Expenditures

Capital expenditures and plans to make capital expenditures eroded between October and January. However, both held up reasonably well given the state of the economy. Capital expenditures appear to be a priority for small business owners, at least when compared to the 1970s. Thus, they probably will remain at higher levels than during recent recessions.

Fifty-four (54) percent reported making one or more capital expenditures in the last three to six months (Table 21). Fewer small business owners made expenditures for equipment and vehicles compared to either October (43% vis-a-vis 47%) or January one year ago (43% vis-a-vis 48%). The same was true of improvements to buildings. Land purchase and addition of buildings remained fundamentally unchanged, though at historically low levels.

Despite the lower frequency of capital expenditures, the size distribution of those remaining appeared largely unchanged from October's report. In fact, the recession seems to have had a greater impact on relative frequency than on relative size. Twenty-one (21) percent of all capital expenditures reported in January were $50,000 or greater; 40 percent were under $10,000 (Table 22). One year ago, 22 percent of reported capital expenditures were over $50,000 and 41 percent were under $10,000.

TABLE 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

| PLANNED INVENTORY CHANGE | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| ADD | 23 | 22 | 22 | | 19 | 17 | 15 | 18 |
| NO CHANGE | 42 | 43 | 43 | | 47 | 47 | 47 | 43 |
| DECREASE | 11 | 12 | 13 | | 12 | 13 | 19 | 15 |
| NOT APPLIC. | 21 | 22 | 17 | | 15 | 17 | 15 | 16 |
| NO ANSWER | 2 | 3 | 5 | | 7 | 6 | 7 | 6 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 21

PERCENTAGES MAKING CAPITAL EXPENDITURES IN LAST SIX MONTHS

| TYPE OF EXPENDITURE | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| ALL TYPES* | 55 | 57 | 57 | | 55 | 55 | 56 | 54 |
| - EQUIPMENT, VEHICLES | 45 | 49 | 48 | | 46 | 46 | 47 | 43 |
| - ADDED BUILDINGS | 8 | 7 | 5 | | 6 | 6 | 6 | 6 |
| - IMPROVED BUILDINGS | 15 | 14 | 17 | | 16 | 16 | 17 | 15 |
| - LAND | 6 | 4 | 4 | | 4 | 3 | 3 | 3 |

** percentage of firms making one or more capital expenditures*

Plans to make one or more capital expenditures in the next three to six months eroded modestly from October. Twenty-seven (27) percent held such plans, the same raw number as in October (Table 23). Seasonal adjustment pushed January's number lower. It was the fourth consecutive quarterly decline, and propelled plans to 1982 levels.

TABLE 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

| AMOUNTS EXPENDED ($1,000s) | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| UNDER 1 | 6 | 6 | 5 | | 7 | 6 | 5 | 7 |
| 1-4 | 19 | 22 | 21 | | 21 | 21 | 21 | 19 |
| 5-9 | 11 | 13 | 15 | | 14 | 14 | 15 | 14 |
| 10-19 | 21 | 22 | 19 | | 20 | 18 | 22 | 20 |
| 20-49 | 19 | 18 | 18 | | 19 | 19 | 18 | 19 |
| 50-99 | 10 | 9 | 10 | | 9 | 10 | 8 | 10 |
| 100-499 | 9 | 8 | 10 | | 9 | 9 | 9 | 8 |
| 500-999 | 1 | 1 | 1 | | 1 | 1 | 1 | 1 |
| 1,000+ | 1 | 4 | 1 | | * | 1 | 1 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

| EXPECTED CAPITAL EXPENDITURES | 1988 JAN. % | 1989 JAN. % | 1990 JAN. % | | 1990 APR. % | 1990 JULY % | 1990 OCT. % | 1991 JAN. % |
|---|---|---|---|---|---|---|---|---|
| YES | 35 | 36 | 35 | | 32 | 29 | 27 | 27 |
| NO | 50 | 48 | 50 | | 52 | 57 | 59 | 58 |
| DON'T KNOW | 11 | 13 | 12 | | 12 | 11 | 11 | 12 |
| NO ANSWER | 4 | 3 | 3 | | 3 | 3 | 3 | 3 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Index of Small Business Optimism

The Index of Small Business Optimism slid laterally in January (Chart 4). After seasonal adjustment, it was virtually unchanged from October, November, or December (Inset, Chart 4). January's 92.6 Index level places current small business optimism at its lowest level since April, 1980. (October's virtally identical level, 92.3, was the exception.) Moreover, the Index forecasts that the recession has at least three months left, and probably more.

All three Index components were sharply lower than they were last January or in the preceding two January's (Table 24). The substantial difference signifies broad difficulties in the small business population with few prospects for immediate change.

CHART 4

INDEX OF SMALL BUSINESS OPTIMISM

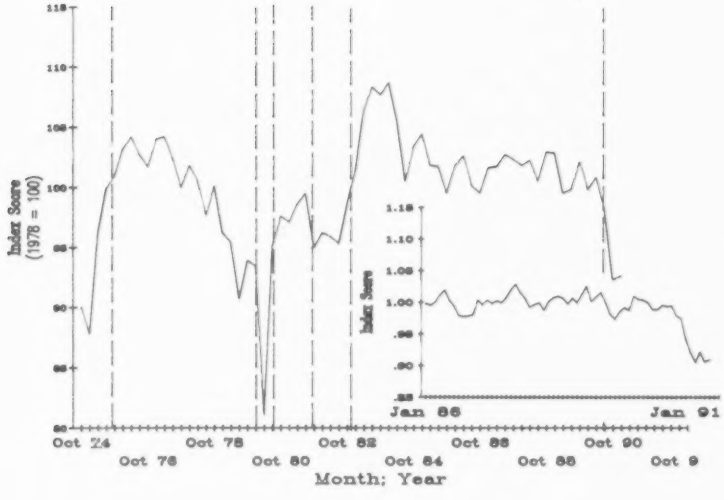


TABLE 24

INDEX OF SMALL BUSINESS OPTIMISM
BY MAJOR COMPONENTS

| INDEX COMPONENTS | 1988 JAN. | 1989 JAN. | 1990 JAN. | | 1990 APR. | 1990 JULY | 1990 OCT. | 1991 JAN. |
|---|---|---|---|---|---|---|---|---|
| GENERAL EXPECTATIONS[1] | 108.5 | 110.5 | 109.3 | | 114.4 | 105.0 | 89.3 | 97.3 |
| CURRENT STATUS[2] | 103.0 | 104.3 | 100.0 | | 101.3 | 103.0 | 98.7 | 94.0 |
| SPENDING PLANS[3] | 120.3 | 119.7 | 118.3 | | 118.7 | 113.0 | 107.0 | 111.0 |
| INDEX[4] | 110.4 | 111.4 | 109.2 | | 111.9 | 106.8 | 97.4 | 100.4 |
| INDEX[5] 1978=100 | 101.8 | 102.8 | 100.7 | | 100.8 | 98.2 | 92.3 | 92.6 |

*1 expected business conditions, climate for expansion, expected real sales volume, expected credit conditions*

*2 current job openings, current inventory satisfaction, change in net earnings*

*3 plans to hire, make capital expenditures, add to inventories*

*4 index numbers*

*5 seasonally adjusted*

Single Most Important Problem

Small business owners cited "Taxes" more frequently, as their single most important problem, than any other problem. Twenty-five (25) percent, one in four, noted "Taxes," a two percent point increase from October. The increase could have been in response to last fall's Federal tax increase. More likely, it is tied to publicity surrounding proposals in many states to close projected deficits through hefty revenue increases. January's assessment represented the 34th consecutive quarter that "Taxes" headed the problem list.

"Government Regulation(s)/Red Tape" drew the second greatest number of cites at 17 percent. The third most frequently mentioned problem was "Poor Sales." (See, Sales.) Fifteen (15) percent noted the problem. Yet, January's level was just one percentage point higher than October's. A larger jump in the number citing "Poor Sales" was the three percentage point rise between last July and October. The slowdown in the increase of owners noting poor sales is good news. It suggests that the worst of the sales declines are over and that the recession is falling no deeper.

Both the cost and quality of labor have eased as single most important problems over the last six months. This change is a natural response given a slowing demand for workers. (See, Employment.)

Just six percent pointed to "Interest Rates & Financing" as their single most important problem. January's figure was the same as October's. In fact, the last six quarterly reports have found either six or seven percent citing "Interest Rates & Financing." As recently as July, 1989, 10 percent believed it their single most important problem. These data counter claims to the existence of a "credit crunch." How does a severe credit pinch exist when fewer small business owners cite "Interest Rates & Financing" as their single most important problem than cited it a year and one-half ago when reports of a problem were non-existent? While the number of anecdotal reports about credit shortages cannot be discounted, evidence of a broad problem cannot be found here. (See, Credit Conditions.)

TABLE 24

SINGLE MOST IMPORTANT PROBLEM

| SINGLE MOST IMPORTANT PROBLEM | 1990 APR. RANK | APR. % | 1990 JULY RANK | JULY % | 1990 OCT. RANK | OCT. % | 1991 JAN. RANK | JAN. % |
|---|---|---|---|---|---|---|---|---|
| TAXES | 1 | 23 | 1 | 23 | 1 | 23 | 1 | 25 |
| INFLATION | 8 | 4 | 8 | 4 | 7 | 6 | 8 | 4 |
| POOR SALES | 3 | 10 | 3 | 11 | 3 | 14 | 3 | 15 |
| INTEREST RATES & FINANCING | 6 | 7 | 7 | 7 | 6 | 7 | 6 | 6 |
| COST OF LABOR | 6 | 7 | 6 | 8 | 8 | 5 | 7 | 5 |
| GOVT. REG(S)/ RED TAPE | 2 | 18 | 2 | 18 | 2 | 17 | 2 | 17 |
| COMPETITION/ LARGE BUS. | 4 | 9 | 5 | 9 | 4 | 9 | 4 | 9 |
| LABOR QUALITY | 4 | 9 | 4 | 10 | 4 | 9 | 5 | 7 |
| SHORTAGE OF FUEL, MATERIAL | 9 | * | 9 | * | 9 | * | 9 | * |
| OTHER;N/A | - | 13 | - | 10 | - | 10 | - | 11 |
| TOTAL | - | 100 | - | 100 | - | 100 | - | 100 |

Inflation did not appear to be a serious concern, either. Only four percent offered it as their single most important problem, the same number which have offered it, with a single exception, over the last eight quarters. The exception, which occurred in October, no doubt was in response to the spike in world oil prices. (See, Prices.)

## Regional Conditions

Small business activity in all regions has fallen sharply since July, ending the idea that a perpetual rolling recession will replace periodic national ones. No region has been spared. While regionality continues to exist in the sense that small business owners in some parts of the country face more difficult conditions than those in other parts, small business owners across the country have been impacted.

New England small business is suffering particularly in this recession. January proved the eight consecutive quarter in which New England's Index of Small Business Optimism fell below the national average (Chart 5). Worse, the region's Index as a percent of the national Index was the lowest for any region in any quarter of the survey's 17 year history. Only the West South Central's performance in April and July, 1986, are comparable. Thus, small business owners in New England are not only pessimistic absolutely, they are pessimistic relatively.

Optimism did rise in some parts of the country. Owners in the Mid-Atlantic, South Atlantic, East South Central and Great Lakes produced better Indices, after seasonal adjustment, in January than in October (Charts 5 and 6). They built on relatively different bases -- the Mid-Atlantic relatively low and the Great Lakes relatively high. However, all gains were marginal. No region appeared to be jumping ahead of the others.

All regions west of the Mississippi River were relative losers (Charts 6 and 7). Their Indices fell after seasonal adjustment. They were more likely than regions in the East to start from a similar position. But just as those regions where gains occurred, the changes were modest.

## War in the Middle East

Respondents to the January survey were divided into two groups to determine what impact the onset of hostilities in the Middle East had on small business. Those whose questionnaires were postmarked January 16 or earlier were placed in the "before" group (n=2031) and those whose questionnaire was postmarked January 17 or later were placed in the "after" group (n=327). The results were tabulated separately.

The war seems to have had some effect on small business. Little or no difference existed on most indicators of small business activity among those owners responding before the start of the war and after it began. Reports on past activity were virtually identical among the two groups as they should have been; their assessments of

REGIONAL INDICES OF SMALL BUSINESS OPTIMISM
AS A PERCENTAGE OF THE NATIONAL INDEX

CHART 5
NEW ENGLAND, MID-ATLANTIC, SOUTH ATLANTIC REGIONS

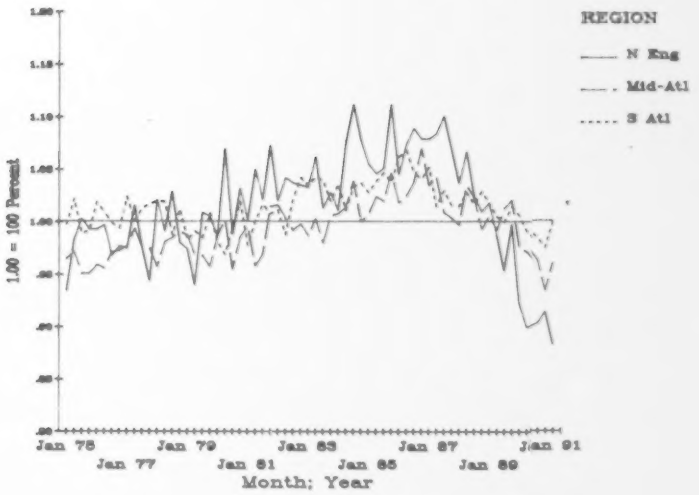



CHART 6
GREAT LAKES, EAST SOUTH CENTRAL, PLAINS REGIONS

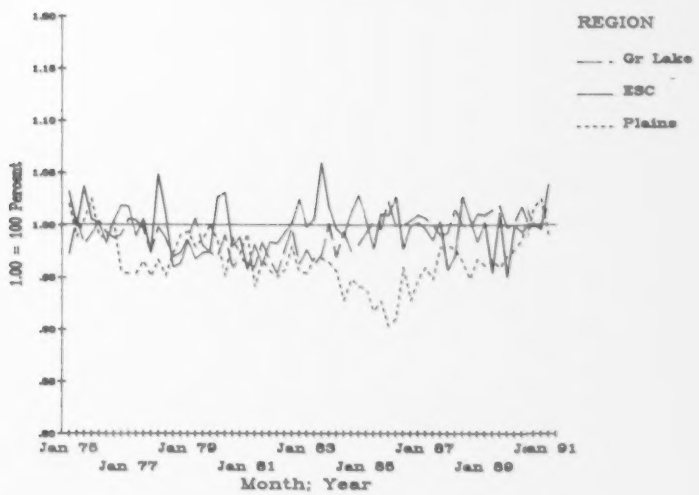
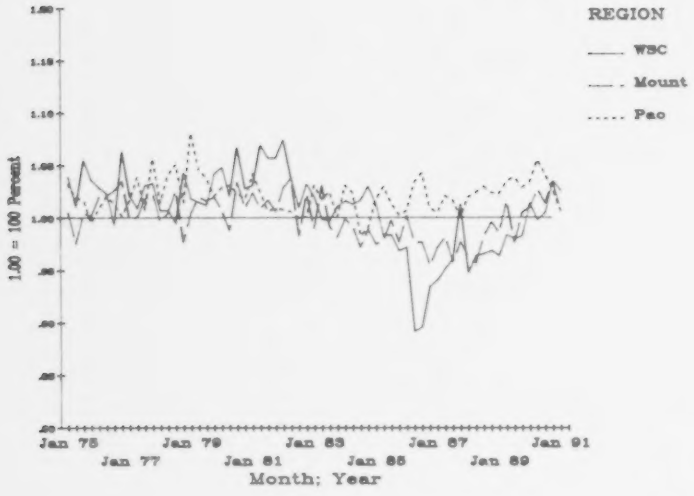


CHART 7
WEST SOUTH CENTRAL, MOUNTAIN, PACIFIC REGIONS




current conditions were also alike. But four major differences arose. Of those three, the largest and most significant was the improved outlook for future general business conditions. One percent more of those responding before the war thought conditions would deteriorate rather than thought they would improve in the next three to six months. Sixteen (16) percent more of those responding after the war started thought conditions would improve rather than thought they would deteriorate. The net 17 percent shift was so large that very little likelihood exists that it is a chance event.

The shift in outlook over general business conditions was reinforced by a smaller move on the current climate for small business expansion. The percent who evaluated the current climate positively was practically the same in both groups. But among the group responding after the war started seven percent moved from negative evaluations and slipped into the uncertain category.

The improved outlook in turn appeared to impact specific plans. Those responding after January 16 were eight percentage points more likely to report plans to increase inventories; they were also five percentage points more likely to report plans to increase employment. However, they were no more optimistic about sales than were those in the group responding on the 16th or before.

The reason for the changed sentiment is probably tied to action or movement. Small business owners are likely to see any decisive change as offering direction. When starting from a poor position, direction and leadership are seen as good. Moreover, their views probably reflect the early, highly optimistic assessments for the war's brief duration and positive outcome.

APPENDIX

Table A-1
Description of Industry Classification

| Industry | Industry Examples |
|---|---|
| Construction | Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, highway and bridge, etc.) |
| Manufacturing/ Mining | (Includes dairy processor, printer, publisher machine shop, oil field service, etc.) |
| Transportation/ Communication | Truckers, movers, warehouse, travel agent, broadcasters, public utilities |
| Wholesale | (Includes manufacturer's representative, grain elevator, distributor) |
| Retail | (Includes service station, restaurant, bar, clothing store, flower shop) |
| Agriculture | Veterinarian, forestry, fishing, nursery |
| Financial Services | Finance, insurance, real estate |
| Services | Beauty salon, garage, motel, repair service, bookkeeper, photographer, funeral director, credit bureau, laundry |
| Professional Services | Physician, dentist, engineer, architect, accountant, nursing home operator, lawyer |

Table A-2
Definition of Regions

| Region | States |
|---|---|
| New England | Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont |
| Mid-Atlantic | New Jersey, New York, Pennsylvania |
| Great Lakes | Illinois, Indiana, Michigan, Ohio, Wisconsin |
| Plains | Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota |
| South Atlantic | Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia (includes Washington, DC) |
| East South Central | Alabama, Kentucky, Mississippi, Tennessee |
| West South Central | Arkansas, Louisiana, Oklahoma, Texas |
| Mountain | Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming |
| Pacific | Alaska, California, Hawaii, Oregon, Washington |

Table A-3
Profile of Respondents

| Industry | Percent | Number |
|---|---|---|
| Construction | 16 | 370 |
| Manufacturing | 14 | 324 |
| Transportation/Communication | 3 | 89 |
| Wholesale | 8 | 177 |
| Retail | 26 | 603 |
| Agriculture | 5 | 127 |
| Financial Services | 7 | 170 |
| Service | 14 | 329 |
| Professional Services | 7 | 169 |
| No Answer | * | 0 |
| Total | 100 | 2358 |

| Employee Size | Percent | Number |
|---|---|---|
| 1 - 2 | 16 | 385 |
| 3 - 5 | 29 | 693 |
| 6 - 9 | 20 | 479 |
| 10 - 14 | 12 | 278 |
| 15 - 19 | 6 | 132 |
| 20 - 39 | 8 | 193 |
| 40 or More | 8 | 176 |
| No Answer | 1 | 22 |
| Total | 100 | 2140 |

| Region | Percent | Number |
|---|---|---|
| New England | 6 | 133 |
| Mid-Atlantic | 11 | 263 |
| South Atlantic | 11 | 263 |
| Great Lakes | 20 | 459 |
| East South Central | 5 | 117 |
| West South Central | 10 | 245 |
| Plains | 13 | 315 |
| Mountain | 9 | 203 |
| Pacific | 15 | 356 |
| Total | 100 | 2140 |

# NFIB QUARTERLY ECONOMIC SURVEY

**Please (circle) the appropriate answers or fill in the blanks.**

1. What is your form of business organization?

   [1] Proprietorship [2] Partnership [3] Corporation 1

2. Please classify [your major business activity,] using [one] of the categories of examples below. (If more than one applies, circle ***the one*** which contributes the most toward your gross sales or total revenues.)

   [1] Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, ***etc.***)
   [2] Manufacturing and mining (including dairy processor, printer, publisher, ***etc.***)
   [3] Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, ***etc.***)
   [4] Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., ***etc.***) 2
   [5] Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, ***etc.***)
   [6] Agriculture, veterinarian, forestry, landscaping, fisheries, ***etc.***
   [7] Financial, insurance, real estate, bank, savings & loan, ***etc.***
   [8] Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, ***etc.***
   [9] Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, ***etc.***
   [10] Other (please describe)_____

3. What is the [single] most important problem facing [your business] today? (Please circle only **ONE** of the following):

   [1] Taxes [4] Interest rates & financing [8] Quality of labor
   [2] Inflation [5] Cost of labor [9] Shortage of fuels, materials or goods 3
   [3] Poor sales [6] Government regulation(s) & red tape [0] Other _____ (please explain)
   [7] Competition from large businesses

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

   [1] Yes [2] No [3] Uncertain 4

   4a. Why? (Circle **ONE** answer – ***most important reason***)

   [1] Economic conditions [3] Financing & interest rates [5] Other _____ (please explain) 5
   [2] Sales prospects [4] Cost of expansion

5. About the [economy in general,] do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

   [1] Much better [3] About the same [5] Much worse 6
   [2] Somewhat better [4] Somewhat worse [6] Don't know

6. During the last 3 months or calendar [quarter,] what were your [gross sales,] or revenues?

   [1] Under $12,500 [3] $25,000–49,999 [5] $87,500–199,999 [7] $375,000–749,999 7
   [2] $12,500–24,999 [4] $50,000–87,499 [6] $200,000–374,999 [8] $750,000 or more

   6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

   [1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 8

   6b. If [higher or lower,] by approximately what percentage?

   [1] Less than 6% [3] 11%–15% [5] 21%–25% [7] 36%–50% 9
   [2] 6%–10% [4] 16%–20% [6] 26%–35% [8] 51% or more

7. Were your [net earnings] or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

   [1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 10

   7a. If [higher or lower,] by approximately what percentage?

   [1] Less than 6% [3] 11%–15% [5] 21%–25% [7] 36%–50% 11
   [2] 6%–10% [4] 16%–20% [6] 26%–35% [8] 51% or more

7b. If [higher or lower,] what is the ***most important reason***? (Circle only **ONE**)

- [1] Sales volume
- [2] Labor costs
- [3] Cost of materials
- [4] Availability of materials
- [5] Received higher prices for your product or service
- [6] Financing costs
- [7] Usual seasonal change
- [8] Other _____ (Specify)

12

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***?

- [1] Go up a lot
- [2] Go up a little
- [3] Stay the same
- [4] Go down a little
- [5] Go down a lot
- [6] Don't know

13

9. How are your [average selling prices] now compared to three months ago?

- [1] Lower now
- [2] No difference
- [3] Higher now
- [4] Don't know

14

9a. If ***higher or lower***, by what percent, on an average?

- [1] Less than 1%
- [2] 1.0–1.9%
- [3] 2.0–2.9%
- [4] 3.0–3.9%
- [5] 4.0–4.9%
- [6] 5.0–7.9%
- [7] 8.0–9.9%
- [8] 10% or more
- [9] Don't know

15

10. In the ***next three months***, do you plan to ***change*** the [average selling prices] of your goods and/or services?

- [1] Yes, raise prices
- [2] Yes, lower prices
- [3] No change
- [4] Don't know

16

10a. If raise or lower, by what percent, ***on average***?

- [1] Less than 1%
- [2] 1.0–1.9%
- [3] 2.0–2.9%
- [4] 3.0–3.9%
- [5] 4.0–4.9%
- [6] 5.0–7.9%
- [7] 8.0–9.9%
- [8] 10% or more
- [9] Don't know

17

11. How many employees do you have [full and part-time] ***including yourself***?

- [1] One
- [2] Two
- [3] 3–5
- [4] 6–9
- [5] 10–14
- [6] 15–19
- [7] 20–39
- [8] 40 or more

18

12. During the ***last three months***, did the ***total*** number of employees in your firm increase, decrease, or stay about the same?

- [1] Increased by ____ employee(s)
- [2] Decreased by ____ employee(s)
- [3] Stayed the same

19-21

12a. If the ***total number*** of employees [increased or decreased,] was this change due primarily to ***seasonal factors*** affecting your business?

- [1] Yes
- [2] No

22

13. In the ***next three months***, do you expect to increase or decrease the total [number of people working for you?]

- [1] Increase
- [2] Keep the same
- [3] Decrease

23

14. Do you have any [job openings] that you are ***not*** able to fill right now?

- [1] Yes, for skilled labor
- [2] Yes, for unskilled labor
- [3] Yes, both skilled and unskilled labor
- [4] No

24

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation):

- [1] Less than one month
- [2] One month, but less than three months
- [3] Three months, but less than six months
- [4] Six months or more

25

15. During the last three months, did you increase or decrease your inventories?

- [1] Increase
- [2] About the same
- [3] Decrease
- [4] Not appropriate

26

15a. If [increase or decrease,] by approximately what percent?

- [1] Less than 6%
- [2] 6%–10%
- [3] 11%–15%
- [4] 16%–20%
- [5] 21%–25%
- [6] 26%–35%
- [7] 36%–50%
- [8] 51% or more

27

16. At the present time, do you feel your [inventories] are too large, about right, or inadequate?

- [1] Too large
- [2] About right
- [3] Too low
- [4] Not appropriate

28

16a. Looking ahead to the [next three to six months,] do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

- [1] Add
- [2] Keep the same
- [3] Decrease
- [4] Not appropriate

29

**(See next page)**

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

[1] Much higher [3] Same [5] Much lower [7] Inapplicable, do not borrow regularly 30
[2] Higher [4] Lower [6] Don't know

17a. Are these loans easier or harder to get than they were ***three months ago***?

[1] Easier [2] Same [3] Harder [4] Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

[1] Easier [2] Same [3] Harder [4] Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? _____ % or Prime + _____ 33-35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

| | | |
|---|---|---|
| Equipment, Vehicles: | [1] Yes | 36 |
| Additional Buildings: | [1] Yes | 37 |
| Improved Buildings: | [1] Yes | 38 |
| Additional Land: | [1] Yes | 39 |

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

[1] under $1,000 [4] $10,000-19,999 [7] $100,000-499,999 40
[2] $1,000-4,999 [5] $20,000-49,999 [8] $500,000-999,999
[3] $5,000-9,999 [6] $50,000-99,999 [9] $1 million or more

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

[1] Yes [2] No [3] Don't know 41

**PLEASE DO NOT REMOVE ADDRESS LABEL**
(Needed for compiling geographical and industry information

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

[1] Increase [2] Keep the same [3] Decrease [4] Don't know 42

21a. If Increase or Decrease, by what percentage on average?

[1] 1-2% [3] 5-6% [5] 9-10% [7] Don't know 43
[2] 3-4% [4] 7-8% [6] Over 10%

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

[1] Increased [2] Kept the same [3] Decreased 44

22a. If Increased or Decreased, by what percentage on average?

[1] 1-2% [3] 5-6% [5] 9-10% 45
[2] 3-4% [4] 7-8% [6] Over 10%

23. Please indicate the geographical area that best describes the community in which your business is located

[1] A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
[2] A small city (population over 15,000 but under 100,000 in city and immediate area)
[3] A rural area (population under 15,000 in city and surrounding communities)

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# Quarterly Economic Report for Small Business

## Spring 1991

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## Spring 1991

Prepared by
**The NFIB Foundation**

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**QUARTERLY ECONOMIC REPORT**
**FOR SMALL BUSINESS**
**(REPORT NO. 71)**

The 71st in a series of quarterly economic reports based on survey data obtained during April 1991 by questionnaire from member firms of the National Federation of Independent Business, San Mateo, CA.

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# SUMMARY OF RESULTS

by

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This recession for small business may have been deeper than previously thought. April reports on sales and earnings changes over the last three months were bleak, below and near survey record lows. Yet, other aspects of small business performance during the winter quarter did not fare so badly. Most performance measures were above average by recession standards. However, the winter's poor performance failed to dampen small business spirits. The Index of Small Business Optimism rose in April for the third consecutive month, indicating that the recession will end in the spring quarter.

April's sales report produced a survey record low. The earnings report was nearly as bad and was tied directly to sales. As a result, small business owners reduced labor forces, reduced inventory holdings and curbed capital outlays. However, the cuts were not commensurate with the sales and earnings data, at least not in comparison to the relationships measured in the prior three recessions. They were substantially more positive. For example, nearly as many believed current inventory balances were too small as believed they were too large; current job openings, a good indicator of changes in unemployment, though comparatively low, were more numerous for a recession than normal.

---

This report is based on a random sample survey of NFIB members conducted during the month of April, 1991. Two thousand one hundred and eighty-four (2,184) small and independent business owners returned usable questionnaires from the 7,202 mailed for a 30.3 percent response rate. A profile of respondents is located in the Appendix.

Despite the poor winter quarter, small business owners looked to the future with anticipation. The current climate for small business expansion was still considered marginal. Yet, little doubt existed that conditions were improving, and improving substantially. Owners forecast that sales will rise, hiring will increase, inventories will be expanded, and considerably more capital expenditures will be initiated. In effect, small business saw the recession coming to an end.

Positive views were influenced in part by falling interest rates. Small business owners reported them decling and responded by increased borrowing activity. However, as greater demand for funds occurred, availability problems edged up. The change was small, but it raised a question -- will availability, the impact of which heretofore has been exaggerated in the press, grow sufficiently to choke off a small business recovery?

The concern with making more funds available for small businesses (and anyone else) is the future impact on prices. April's data indicated that small business prices continued to rise in frequency with levels which previously resulted in a 4 to 5 percent inflation rate. Plans to raise prices in the coming three months indicated that the present level would decline somewhat. Yet, the recession, accompanied by modest compensation increases and poor sales, has had an impact on small business prices. Cost increases from last year have not been fully passed on and the proportion lowering prices has methodically risen.

Regional differences persisted. Small business owners in the East experienced worse conditions than did those in the center of the country and in the West. The exception was the South Atlantic.

Outlook

April's small business outlook exhibited vast improvement from January, but showed no change from the last month. Clearly, small business owners feel much better about current and future business conditions than they did during the winter. How much of the improvement is attributable to events in the Persian Gulf is unknown, but it would appear to have been minimal. (See, War in the Middle East.) The failure to produce a further recovery between March and April suggests there may have been some. Nonetheless, the outlook continues to undergo a significant rebound.

Fourteen (14) percent believed the present to be a good time for small business expansion (Table 1). April's level rose nine percentage points from January's, returning the indicator to last July's level. Still, this measure of the absolute outlook remained below pre-recession levels and exhibited no change from March. The level signifies that the economy remains weak, but considerably better than just a few months ago.

All industries seemed to be participating in the rebound. Owners of businesses in the financial services were the only industry group more optimistic than others. No industry group was less optimistic. (See, Regional Conditions, for the substantial differences recorded by geographic area.)

TABLE 1

CLIMATE FOR SMALL-BUSINESS EXPANSION IN NEXT QUARTER

| GOOD TIME TO EXPAND | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| YES | 21 | 16 | 17 | | 14 | 5 | 5 | 14 |
| NO | 41 | 48 | 46 | | 54 | 74 | 74 | 56 |
| UNCERTAIN | 37 | 35 | 36 | | 32 | 21 | 20 | 29 |
| NO ANSWER | 1 | 1 | 1 | | * | * | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Nearly one in five of those who believed the present climate favorable for small business expansion attributed their view to financing conditions (Chart 1). However, a comparatively low percentage attribute a negative or uncertain view of the expansion climate to financing. General economic conditions was the primary cause for lack of optimism. The cost of expansion was the second most frequently cited reason, trailing general economic conditions by margins of 6 and 7 to 1. But, concern over prices and costs was not a theme of April's report. (See, Single Most Important Problem and Prices.)

The belief that general business conditions would improve in the next to six months was widespread. Fifty-one (51) percent felt conditions would improve compared to just eight percent who felt they would worsen (Table 2). April's numbers represented a substantial turnabout from January when just 27 percent thought general business conditions would improve in the next three to six months compared to 25 percent who thought they would worsen. In fact, the general business conditions indicator in April was at its highest level since 1983. The only negative aspect was that April's level showed no improvement from March's.

Credit Conditions

With interest rates falling and the economy improving, the number of small business owners regularly seeking bank loans rose. Increases in borrowing frequency were still relatively small. The proportion experiencing availabiity problems rose between January and April, though they ebbed in the last month. Nevertheless, small businessmen and women believed that credit conditions would improve in the spring.

The average rate paid by small business owners on short-term loans fell 70 basis points between the fall and winter quarters

CHART 1

"GOOD TIME TO EXPAND" BY REASON
FOR VIEW OF EXPANSION

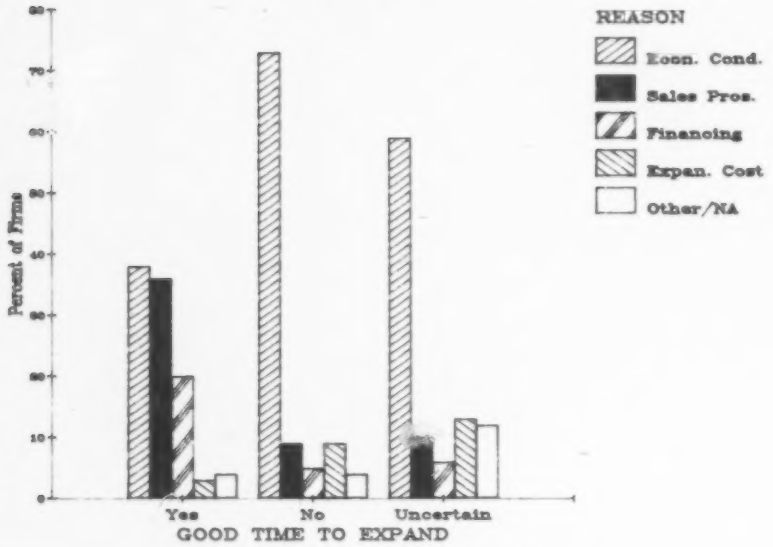



TABLE 2

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE
NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

| EXPECTED CONDITIONS | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| MUCH BETTER | 1 | 1 | 2 | | 1 | 1 | 3 | 5 |
| BETTER | 21 | 17 | 20 | | 16 | 11 | 24 | 46 |
| SAME | 58 | 54 | 57 | | 53 | 36 | 38 | 37 |
| WORSE | 12 | 19 | 13 | | 20 | 36 | 21 | 7 |
| MUCH WORSE | 1 | 2 | 1 | | 2 | 7 | 4 | 1 |
| DON'T KNOW | 7 | 7 | 6 | | 7 | 9 | 10 | 4 |
| NO ANSWER | * | * | 1 | | 1 | * | * | * |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

(Table 4). Yet, this single number doesn't reflect the breadth of the decline in rates. Nearly as many in April reported lower rates as reported them unchanged (Table 5). First indications of the softening interest rates appeared in January, but they have accelerated since.

One early result of the lower rate is that more small business owners defined themselves as "regular borrowers." The proportion of regular borrowers rose to 37 percent, three percentage points higher than in January and the most in two years. April's proportion was fractionally higher than March's. However, more borrowers increase demand. Increased demand suggests a tightening of credit availability, and that appears to be what is happening.

The number of small business owners reporting credit harder to obtain rose a percentage point between January and April. (It fell a percentage point from March.) Twelve (12) percent of all respondents, or nearly a third of all borrowers, indicated that credit was more difficult to obtain in the last three months than in the prior three (Table 3). The number represents the greatest proportion of respondents making such a report since late 1981 (excepting the prior month).

Owners of businesses in the three service industries (financial, professional and services) were the most likely to indicate that it was harder to obtain credit in the last three months than in the prior three. Each of the three outpaced those in the depressed construction sector by nearly 50 percent. However, the data do not suggest that borrowing for construction projects has eased notably. What they do suggest is that availability problems are spreading to previously less-affected industries and that, quite likely, there is an increased demand for business collateral which service businesses often have difficulty providing.

Expectations for future credit conditions brightened noticeably. Just 11 percent believed credit conditions would deteriorate in the next three months compared to two percent who felt the opposite (Table 6). The net -9 percentage points was the most optimistic assessment in a year. However, the assessment still more closely approximated evaluations made in 1982 than in 1989.

Prices

Many of the price increases small business owners planned to make in January failed to materialize. In addition, the frequency of plans to make increases tumbled to their "pre-oil price spike" levels. With price cutting still common and sales weak, there is little immediate propect that small business owners will be able to raise prices at a more rapid rate than they are currently. April's data also suggested that the floor on the frequency of small business price increases now lies between 20 and 25 percent. Thus, even during a recession, small business contributes to an inflation rate higher than what just a few years ago would have been considered unacceptable.

Twenty-five (25) percent reported higher average selling prices in April than in January (Table 7). The number is three

TABLE 3

CURRENT AVAILABILITY OF LOANS
COMPARED TO AVAILABILITY IN PRIOR QUARTER

| LOAN AVAILABLITY | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| EASIER | 2 | 1 | 1 | | 1 | 1 | 1 | 1 |
| SAME | 25 | 27 | 24 | | 22 | 20 | 20 | 23 |
| HARDER | 7 | 11 | 9 | | 11 | 11 | 11 | 12 |
| DON'T KNOW | 2 | 2 | 1 | | 1 | 2 | 2 | 1 |
| DON'T BORROW; NO ANSWER | 64 | 59 | 65 | | 64 | 66 | 66 | 63 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 4

INTEREST RATES PAID ON SHORT-TERM LOANS

| INTEREST RATE | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| UNDER 10% | 10 | 4 | 1 | | 1 | 1 | 2 | 3 |
| 10-12% | 33 | 39 | 38 | | 41 | 38 | 36 | 39 |
| 13-15% | 6 | 13 | 12 | | 11 | 9 | 9 | 7 |
| 16% OR MORE | 2 | 3 | 3 | | 2 | 3 | 3 | 3 |
| PRIME +1 | 25 | 25 | 25 | | 25 | 31 | 26 | 27 |
| PRIME +2 | 21 | 21 | 18 | | 18 | 15 | 21 | 19 |
| PRIME +3 OR MORE | 3 | 5 | 3 | | 2 | 3 | 3 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |
| AVERAGE RATE (%) | 10.8 | 12.6 | 12.0 | | 11.9 | 11.9 | 11.9 | 11.2 |

TABLE 5

CURRENT INTEREST RATES COMPARED TO
INTEREST RATES IN PRIOR QUARTER

| RELATIVE INTEREST RATES | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| MUCH HIGHER | 1 | 7 | 1 | | * | 1 | * | * |
| HIGHER | 6 | 29 | 8 | | 8 | 8 | 4 | 3 |
| SAME | 23 | 4 | 21 | | 24 | 23 | 22 | 17 |
| LOWER | 5 | * | 4 | | 2 | 1 | 7 | 16 |
| MUCH LOWER | * | * | * | | * | * | * | * |
| DON'T KNOW | 1 | 1 | 1 | | 2 | 1 | 1 | 1 |
| DON'T BORROW; NO ANSWER | 64 | 59 | 65 | | 64 | 66 | 66 | 63 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER
COMPARED TO CURRENT QUARTER

| CREDIT EXPECTATIONS | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| EASIER | 2 | 1 | 1 | | 1 | * | 1 | 2 |
| SAME | 25 | 22 | 22 | | 28 | 17 | 16 | 21 |
| HARDER | 8 | 8 | 9 | | 12 | 14 | 13 | 11 |
| DON'T KNOW | 2 | 4 | 3 | | 3 | 3 | 4 | 3 |
| DON'T BORROW; NO ANSWER | 64 | 59 | 65 | | 64 | 66 | 66 | 63 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

percentage points lower than the number planning to make them three months ago. The winter quarter is the second consecutive quarter

in which the frequency of plans exceeded subsequent increase. More commonly, the number actually raising prices is about the same as, or higher than, the number planning increases. The gap between plans and performance reflects recessionary pressures.

The percent cutting average prices rose two percentage points from January. April represented the fourth consecutive quarterly increase and was among the highest levels recorded in the survey's 17 year history. Only in 1981 and 1982 was price cutting more frequent.

TABLE 7

CURRENT AVERAGE SELLING PRICES COMPARED TO
PRIOR QUARTER'S AVERAGE SELLING PRICES

| AVERAGE SELLING PRICES | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| LOWER NOW | 10 | 9 | 9 | | 11 | 13 | 14 | 16 |
| NO DIFFERENCE | 57 | 52 | 59 | | 63 | 58 | 59 | 57 |
| HIGHER NOW | 30 | 36 | 30 | | 24 | 27 | 24 | 25 |
| < 1% | * | * | 1 | | * | 1 | * | 1 |
| 1.0-1.9% | 4 | 4 | 4 | | 3 | 2 | 2 | 3 |
| 2.0-2.9% | 5 | 5 | 5 | | 4 | 3 | 4 | 4 |
| 3.0-3.9% | 4 | 5 | 4 | | 3 | 4 | 4 | 3 |
| 4.0-4.9% | 3 | 5 | 4 | | 4 | 4 | 3 | 3 |
| 5.0-7.9% | 8 | 9 | 6 | | 5 | 6 | 6 | 6 |
| 8.0-9.9% | 2 | 2 | 1 | | 1 | 1 | 1 | 1 |
| 10% OR MORE | 3 | 4 | 3 | | 3 | 5 | 3 | 3 |
| NO ANSWER | 1 | 2 | 2 | | 1 | 1 | 1 | 1 |
| NO ANSWER | 3 | 3 | 2 | | 2 | 3 | 2 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Plans to raise average selling prices fell dramatically between January and April -- from 28 percent to 21 percent (Table 8). The change indicates that higher costs for such items as oil and health insurance either have been absorbed in the form of lower

earnings or already passed through.

The price performance of varying industries demonstrate continung efforts to pass on cost increases through the production-distribution chain. A greater percentage reported price cuts than price increases in the construction, agriculture and transportation industries. Cuts and increases were virtually identical in manufacturing and wholesale. In retail and all three service industries, the percent raising prices exceeded the percent lowering prices by about 15 percentage points. However, the frequency of plans to raise prices in the next three months were similar in most industries. Those in financial services, agriculture and, to a lesser extent, construction were less likely to report price increase plans.

TABLE 8

PLANNED PRICE CHANGES FOR THE NEXT QUARTER

| PLANNED PRICE CHANGES | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| LOWER | 3 | 3 | 3 | | 3 | 4 | 6 | 3 |
| NO CHANGE | 54 | 51 | 56 | | 58 | 49 | 48 | 59 |
| INCREASE | 24 | 28 | 25 | | 23 | 30 | 28 | 21 |
| < 1% | * | * | 1 | | 1 | 1 | * | 1 |
| 1.0-1.9% | 2 | 3 | 3 | | 2 | 2 | 3 | 2 |
| 2.0-2.9% | 3 | 5 | 5 | | 4 | 4 | 4 | 3 |
| 3.0-3.9% | 4 | 4 | 3 | | 3 | 4 | 3 | 3 |
| 4.0-4.9% | 3 | 4 | 3 | | 3 | 5 | 4 | 3 |
| 5.0-7.9% | 7 | 7 | 6 | | 5 | 8 | 8 | 6 |
| 8.0-9.9% | 1 | 1 | 1 | | 1 | 1 | 1 | * |
| 10% OR MORE | 3 | 3 | 2 | | 3 | 3 | 3 | 2 |
| DON'T KNOW | 1 | 1 | 2 | | 1 | 2 | 2 | 1 |
| DON'T KNOW | 13 | 14 | 14 | | 15 | 15 | 17 | 15 |
| NO ANSWER | 6 | 4 | 2 | | 1 | 2 | 1 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

## Compensation

Average compensation rose less frequently in the first quarter of 1991 than in any first quarter measuring period since the series was instituted in 1984. Just 23 percent reported raising average compensation in the last three months, one percentage point lower than the prior low and three percentage points lower than normal for this time of the year (Table 9). The average compensation increase was 5.5 across firms increasing compensation or about 1.0 percent across all firms.

TABLE 9

CHANGE IN AVERAGE COMPENSATION
OVER THE PRIOR QUARTER

| COMPENSATION CHANGE | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| INCREASED | 24 | 26 | 27 | | 29 | 24 | 18 | 23 |
| 1-2% | 3 | 3 | 3 | | 4 | 3 | 1 | 3 |
| 3-4% | 8 | 7 | 8 | | 7 | 7 | 2 | 7 |
| 5-6% | 7 | 7 | 9 | | 9 | 7 | 5 | 8 |
| 7-8% | 2 | 3 | 2 | | 2 | 3 | 5 | 2 |
| 9-10% | 2 | 3 | 2 | | 3 | 2 | 2 | 2 |
| OVER 10% | 1 | 2 | 2 | | 3 | 2 | 2 | 1 |
| NO ANSWER | 1 | 1 | 1 | | 1 | * | 1 | * |
| SAME | 69 | 68 | 67 | | 64 | 69 | 75 | 69 |
| DECREASED | 1 | 1 | 1 | | 1 | 2 | 2 | 2 |
| NO ANSWER | 6 | 5 | 5 | | 6 | 5 | 5 | 6 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| AVERAGE INCREASE | % | % | % | | % | % | % | % |
|---|---|---|---|---|---|---|---|---|
| FIRMS INCREASING | 5.6 | 5.9 | 5.9 | | 6.0 | 5.9 | 5.7 | 5.5 |
| ALL FIRMS | 1.4 | 1.5 | 1.6 | | 1.7 | 1.4 | 1.0 | 1.0 |

Plans to raise average compensation have been steady for the last year prior to seasonal adjustment. April's 19 percent was a single percentage point below January's and a point higher than October's (Table 10). Seasonal factors indicate that plans rose in April. Perhaps, the rise was attributable to another increase in the minimum wage. The number of current job openings does not indicate any market pressure to raise compensation (see, Employment) nor do reported problems with labor costs (see, Single Most Import-

TABLE 10

PLANS TO CHANGE AVERAGE COMPENSATION
OVER THE NEXT QUARTER

| COMPENSATION CHANGE | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| INCREASE | 20 | 22 | 22 | | 17 | 18 | 20 | 19 |
| 1-2% | 2 | 2 | 2 | | 2 | 2 | 1 | 2 |
| 3-4% | 6 | 6 | 7 | | 6 | 6 | 2 | 6 |
| 5-6% | 6 | 7 | 8 | | 7 | 6 | 7 | 5 |
| 7-8% | 2 | 2 | 2 | | 1 | 1 | 7 | 2 |
| 9-10% | 2 | 2 | 1 | | 1 | 2 | 2 | 1 |
| OVER 10% | 1 | 1 | 1 | | * | * | 1 | 1 |
| DON'T KNOW | 1 | 1 | 1 | | * | 1 | * | 1 |
| NO ANSWER | * | 1 | * | | * | * | * | 1 |
| SAME | 67 | 66 | 63 | | 70 | 67 | 66 | 66 |
| DECREASE | 1 | * | 1 | | 1 | 2 | 2 | 2 |
| DON'T KNOW | 10 | 10 | 12 | | 9 | 10 | 10 | 10 |
| NO ANSWER | 2 | 2 | 2 | | 3 | 3 | 2 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| AVERAGE INCREASE | % | % | % | | % | % | % | % |
|---|---|---|---|---|---|---|---|---|
| FIRMS INCREASING | 5.5 | 5.8 | 5.5 | | 5.4 | 5.5 | 5.5 | 5.6 |
| ALL FIRMS | 1.3 | 1.3 | 1.2 | | 0.9 | 1.0 | 1.1 | 1.0 |

ant Problem). Plans to increase labor forces in the second quarter could mean some bidding up of employee compensation. But overall, the outlook for employment cost increases favors a modest inflation rate.

## Sales

Sales in the first quarter were grim. Reported sales changes were the poorest in the 17 year history of the survey -- worse than in 1975, worse than in 1982. The substantial numbers reporting "Poor Sales" as their single most important problem reflected the sales data. (See, Single Most Important Problem.) Yet, small business owners were remarkably optimistic about future sales. Expectations for the spring quarter were very high, suggesting either a rapid turnabout in sales performance or many disappointed small businessmen and women in July.

Just 23 percent reported sales higher in the winter quarter than in the three months prior (Table 11). In contrast, 41 percent reported them lower for a net -18 percent, the poorest showing in survey history. The seasonally adjusted, Index of Small Business Sales, demonstrated the same result (Chart 2).

TABLE 11

DOLLAR SALES VOLUME COMPARED TO PRIOR QUARTER'S DOLLAR SALES VOLUME

| DOLLAR SALES VOLUME | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| MUCH HIGHER | 3 | 3 | 4 | | 3 | 3 | 3 | 2 |
| HIGHER | 27 | 26 | 27 | | 34 | 27 | 22 | 21 |
| ABOUT THE SAME | 41 | 40 | 39 | | 41 | 43 | 39 | 36 |
| LOWER | 24 | 25 | 25 | | 18 | 23 | 30 | 32 |
| MUCH LOWER | 4 | 5 | 5 | | 3 | 4 | 6 | 9 |
| NO ANSWER | 1 | 1 | * | | 1 | * | * | * |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Every industry appeared adversely affected, though construction fared worst. The exception was professional services. A net 10 percentage points more firms in the professional services experienced increased sales than experienced decreased sales.

Reported sales appeared to bottom with the January survey. February's sales data improved on January's and sales expectations rose for the third consecutive month. However, a change occurred with the March survey. While sales expectations kept right on rising, performance dropped sharply -- from a net -5 percent in February to a net -19 percent in March. April's data represented no noticeable improvement over the prior month. Yet, sales expectations remained very (unrealistically?) positive.

CHART 2

INDICES OF SMALL BUSINESS SALES
AND SMALL BUSINESS EARNINGS

In April, 58 percent expected sales to be higher in the next three months while just 13 percent expected them lower (Table 12). Sales expectations were among the highest on record. It is unlikely that expectations can be realized soon. The gap between recent performace and expectations is just to large. Thus, the issue is the impact on other indicators and other areas of performance should sales fall short of expectations. This would be particularly true if sales fall considerably short.

TABLE 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

| EXPECTED REAL SALES | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| GO UP A LOT | 13 | 11 | 11 | | 6 | 7 | 5 | 11 |
| GO UP A LITTLE | 47 | 45 | 45 | | 37 | 26 | 26 | 47 |
| STAY THE SAME | 23 | 22 | 25 | | 32 | 24 | 26 | 25 |
| GO DOWN A LITTLE | 11 | 14 | 12 | | 17 | 28 | 29 | 11 |
| GO DOWN A LOT | 2 | 3 | 3 | | 3 | 10 | 8 | 2 |
| DON'T KNOW | 3 | 3 | 3 | | 4 | 4 | 5 | 3 |
| NO ANSWER | 1 | 2 | 1 | | 1 | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Earnings

Small business earnings took a beating as a result of the last quarter's poor sales. Just 16 percent reported higher earnings in the winter quarter than in the fall quarter compared to 47 percent who reported them lower (Table 13). The figures were marginally worse (marginally better, seasonally adjusted) than those reported three months earlier. The seasonally adjusted Index of Small Business Earnings showed the primary deterioration occurring the prior quarter with the current one merely stabilizing at a very low level (Chart 2). Poorer levels were reached in each of the last three recessions.

The reason most often given for earnings increases was sales volume (Table 14). In fact, the distribution of reasons given for higher earnings was largely unchanged from January. Nor, was the distribution in April greatly different from what has become the norm. That was not the case among those with lower earnings. Fifty-six (56) percent cited "Sales Volume" as the primary cause. However, that figure was seven percentage points higher than in January, 10 percentage points higher than in October and 17 percentage points higher than in April, 1989. In addition, "Poor Sales" was more likely to be cited as the single most important problem by those with lower earnings than was any other.

TABLE 13

NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

| NET EARNINGS | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| MUCH HIGHER | 1 | 1 | 2 | | 2 | 1 | 1 | 1 |
| HIGHER | 19 | 18 | 19 | | 22 | 16 | 16 | 15 |
| SAME | 43 | 41 | 41 | | 43 | 44 | 37 | 35 |
| LOWER | 29 | 32 | 31 | | 29 | 33 | 37 | 38 |
| MUCH LOWER | 5 | 5 | 6 | | 3 | 3 | 7 | 9 |
| NO ANSWER | 3 | 3 | 1 | | 1 | 1 | 2 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Employment

Employment opportunities in the nation's small businesses remained sparse. Owners of operating small firms reported net reductions in their labor forces and comparatively few current job openings. However, reflecting the optimistic attitude found elsewhere, small businessmen and women expected hiring in the spring quarter to approximate that in non-recessionary times.

The winter quarter saw the number of jobs in operating small businesses decline. Just 12 percent increased employment compared to 19 percent who decreased it (Table 15). The net loss proved to be .37 employees per firm. The quarter's losses were considerably above pre-recession levels as evidenced by the preceding three winter quarters which produced net gains approximating zero.

The recession's moderate unemployment rate can be seen in the disposition of current job openings. Fourteen (14) percent now have at least one job vacancy (Table 16). Just four percent had at least one opening for unskilled workers. Firms with a vacancy were one percentage point more than in January, but one percentage point fewer than in March. Thus, while the job market has not yet begun to improve, the unemployment rate is near its peak. (By comparison, nine percent reported a current job vacancy in January, 1983.)

Twenty-two (22) percent of responding small business owners planned net additions to their labor forces in the next three months (Table 17). The seasonal spike is usual. What is unusual is that operating small business owners experience net employment losses while planning spring gains commensurate with those experienced in non-recession years.

TABLE 14

PRIMARY REASONS FOR EARNINGS CHANGE

| REASON FOR HIGHER NET EARNINGS | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| SALES VOLUME | 60 | 59 | 58 | | 55 | 55 | 58 | 55 |
| HIGHER PRICES | 10 | 11 | 11 | | 9 | 9 | 10 | 10 |
| FACTOR COSTS* | 5 | 7 | 4 | | 6 | 5 | 5 | 5 |
| SEASONALITY | 16 | 12 | 19 | | 25 | 21 | 22 | 20 |
| OTHER; NA | 9 | 11 | 8 | | 5 | 7 | 5 | 10 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| REASON FOR LOWER NET EARNINGS | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| SALES VOLUME | 38 | 39 | 45 | | 44 | 46 | 49 | 56 |
| FACTOR COSTS* | 23 | 25 | 19 | | 28 | 27 | 19 | 15 |
| SEASONALITY | 26 | 23 | 21 | | 14 | 13 | 17 | 17 |
| OTHER; NA | 16 | 16 | 15 | | 14 | 14 | 15 | 12 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

* *includes labor, material, and financing costs*

Inventories

Small business owners continued to pare inventories, even though poor sales made net reductions more difficult. Relative satisfaction with current inventory balances was the result. While more planned to make net additions to inventory in the spring quarter than planned to make net reductions, plans have recently proven more optimistic than subsequent performance. Still, on balance, inventories provided one of the most positive areas of the month this data.

Just 14 percent reported net inventory increases in the last three months compared to 23 percent who reported net decreases (Table 18). The winter quarter's net negative percentage contrasts sharply with the positive percentages experienced during the expansion. The only other negative percentage coming from a winter

TABLE 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

| EMPLOYMENT CHANGE | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| INCREASED | 15 | 14 | 16 | | 21 | 14 | 10 | 12 |
| - SEASONAL | 6 | 5 | 6 | | 11 | 5 | 3 | 4 |
| - NON-SEASONAL | 9 | 9 | 10 | | 10 | 9 | 7 | 8 |
| DECREASED | 13 | 13 | 15 | | 13 | 17 | 19 | 19 |
| - SEASONAL | 4 | 4 | 5 | | 4 | 5 | 8 | 6 |
| - NON-SEASONAL | 9 | 9 | 10 | | 9 | 12 | 11 | 13 |
| NO CHANGE | 69 | 72 | 69 | | 66 | 68 | 70 | 68 |
| NO ANSWER | 3 | 1 | * | | * | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| NUMBER OF EMPLOYEES | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| INCREASED (PER FIRM INCREASING) | 3.9 | 3.9 | 4.7 | | 3.8 | 3.8 | 2.9 | 3.6 |
| DECREASED (PER FIRM DECREASING) | 4.0 | 4.2 | 5.2 | | 6.2 | 3.2 | 4.1 | 6.1 |
| AVERAGE NET CHANGE PER ALL FIRMS | +.06 | -.43 | +.02 | | +.36 | +.01 | -.45 | -.37 |

quarter occurred in 1983 (series orginating in October, 1982), just after the economy had entered a strong expansion.

Small business owners have carefully controlled inventories during the current recession. The most unbalanced period was in December when seven percent more evaluated inventories as "Too Large" than evaluated them as "Too Low." By April, a single percentage point separated the two groups. Eleven (11) percent felt their stocks too high and 10 percent felt them inadequate (Table 19). Inventory satisfaction stood at its highest point in a year.

TABLE 16

CURRENT JOB OPENINGS

| CURRENT JOB OPENINGS | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| YES | 23 | 23 | 21 | | 20 | 19 | 13 | 14 |
| - SKILLED | 14 | 15 | 14 | | 15 | 14 | 10 | 10 |
| - UNSKILLED | 4 | 4 | 3 | | 2 | 2 | 1 | 2 |
| - BOTH | 4 | 4 | 4 | | 3 | 3 | 2 | 2 |
| NO | 77 | 76 | 78 | | 79 | 80 | 86 | 85 |
| NO ANSWER | * | 1 | 1 | | 1 | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

| NET LABOR FORCE CHANGE EXPECTATIONS | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| INCREASE | 25 | 23 | 23 | | 16 | 12 | 13 | 22 |
| SAME | 68 | 69 | 69 | | 72 | 72 | 76 | 71 |
| DECREASE | 5 | 5 | 6 | | 10 | 14 | 10 | 6 |
| NO ANSWER | 2 | 3 | 2 | | 2 | 2 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

More planned to increase inventories (19%) in the spring quarter than planned to reduce them (13%) (Table 20). The numbers were identical to those recorded last April, and elevated inventory plans into positive figures. In fact, seasonally adjusted April plans were typical of levels occurring during expansions in the later 1970s and most of the 1980s. The issue, however, is whether plans will be actualized given current sales levels. Since the recession began, plans have diverged from performance more significantly than previously. Thus, while inventory plans represented a very positive factor in the month's survey, it is less clear that owners will follow-through with new orders.

TABLE 18

INVENTORY CHANGE IN PRIOR QUARTER

| INVENTORY CHANGE | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| INCREASE | 21 | 20 | 19 | | 19 | 15 | 13 | 14 |
| SAME | 44 | 43 | 44 | | 44 | 46 | 41 | 43 |
| DECREASE | 15 | 17 | 18 | | 16 | 20 | 25 | 23 |
| NOT APPLIC. | 18 | 19 | 18 | | 20 | 18 | 20 | 19 |
| NO ANSWER | 2 | 1 | 1 | | 1 | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 19

CURRENT INVENTORY SATISFACTION

| INVENTORY LEVEL | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| TOO LARGE | 12 | 11 | 10 | | 11 | 13 | 13 | 11 |
| ABOUT RIGHT | 56 | 56 | 58 | | 57 | 56 | 56 | 57 |
| TOO LOW | 10 | 10 | 10 | | 9 | 10 | 9 | 10 |
| NOT APPLIC. | 21 | 21 | 18 | | 21 | 18 | 20 | 20 |
| NO ANSWER | 1 | 2 | 4 | | 2 | 3 | 2 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Capital Expenditures

Capital expenditures also appeared to be turning around. While reported outlays exhibited no strength, plans to make them in the coming months reversed course and moved in a positive direction.

Fifty-three (53) percent reported making at least one outlay in the last three to six months (Table 21), the fewest since the 1986 lull when just 51 percent did so. (In April, 1987, the figure also fell to 53 percent.) In percentage terms, the principal weak-

TABLE 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

| PLANNED INVENTORY CHANGE | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| ADD | 20 | 21 | 19 | | 17 | 15 | 18 | 19 |
| NO CHANGE | 44 | 44 | 47 | | 47 | 47 | 43 | 47 |
| DECREASE | 14 | 12 | 12 | | 13 | 19 | 15 | 12 |
| NOT APPLIC. | 19 | 20 | 15 | | 17 | 15 | 16 | 17 |
| NO ANSWER | 3 | 3 | 7 | | 6 | 7 | 6 | 6 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

ness appeared in equipment and vehicles. However, the proportion citing outlays for buildings and land has also stabilized at historically low levels.

Not only were capital outlays relatively infrequent, they were also relatively small. Forty-three (43) percent reported outlays

TABLE 21

PERCENTAGES MAKING CAPITAL EXPENDITURES IN LAST SIX MONTHS

| TYPE OF EXPENDITURE | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1990 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| ALL TYPES* | 55 | 57 | 55 | | 55 | 56 | 54 | 53 |
| - EQUIPMENT, VEHICLES | 45 | 46 | 46 | | 46 | 47 | 43 | 43 |
| - ADDED BUILDINGS | 6 | 8 | 6 | | 6 | 6 | 6 | 6 |
| - IMPROVED BUILDINGS | 16 | 16 | 16 | | 16 | 17 | 15 | 15 |
| - LAND | 3 | 4 | 4 | | 3 | 3 | 3 | 3 |

** percentage of firms making one or more capital expenditures*

of less than $10,000 and 64 reported them under $20,000 (Table 22). Relatively more small outlays appeared to occur at the expense of those in the $20,000 to $100,000 range. The proportion (on a smaller base) making large outlays has been comparatively stable.

Plans to make one or more capital expenditures in the next three to six months rose four percentage points to 31 percent between January and April (Table 23). April's datum, seasonally adjusted, reversed the four consecutive quarter decline and returned outlay plans to their pre-recession level. Despite the positive change however, April plans could only match the weakest set of plans occurring in the most recent expansion.

TABLE 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

| AMOUNTS EXPENDED ($1,000s) | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| UNDER 1 | 5 | 6 | 7 | | 6 | 5 | 7 | 7 |
| 1-4 | 19 | 19 | 21 | | 21 | 21 | 19 | 21 |
| 5-9 | 15 | 16 | 14 | | 14 | 15 | 14 | 15 |
| 10-19 | 22 | 17 | 20 | | 18 | 22 | 20 | 21 |
| 20-49 | 19 | 18 | 19 | | 19 | 18 | 19 | 17 |
| 50-99 | 9 | 10 | 9 | | 10 | 8 | 10 | 8 |
| 100-499 | 8 | 11 | 9 | | 9 | 9 | 8 | 9 |
| 500-999 | 1 | 2 | 1 | | 1 | 1 | 1 | 2 |
| 1,000+ | 1 | 1 | * | | 1 | 1 | 2 | * |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Index of Small Business Optimism

The Index of Small Business Optimism nosed past the 100 mark for the first time since November, 1989, reaching its highest level in a year and a half (Chart 3). April's rise represented the third consecutive monthly increase. Since January, the Index has risen 10 percent suggesting that the recession will end in the spring quarter.

The "General Expectations" component of the Index caused most of its gain. The "Current Status" component was unchanged with

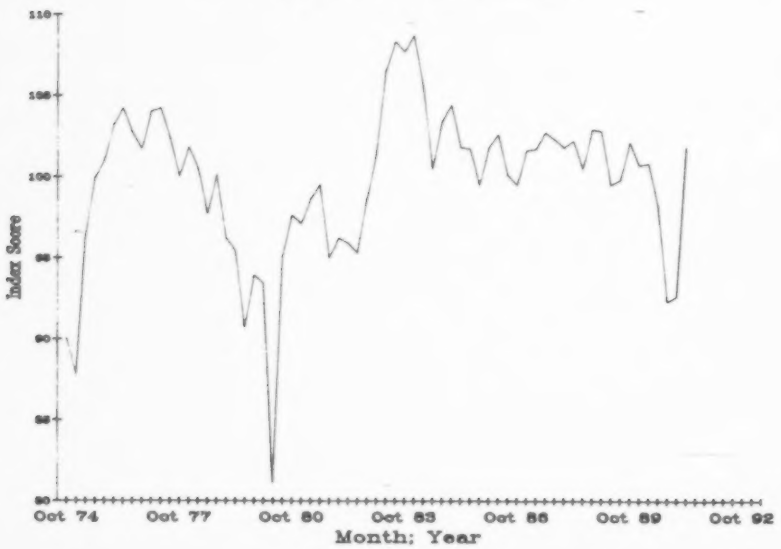
TABLE 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

| EXPECTED CAPITAL EXPENDITURES | 1988 APR. % | 1989 APR. % | 1990 APR. % | | 1990 JULY % | 1990 OCT. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| YES | 33 | 33 | 32 | | 29 | 27 | 27 | 31 |
| NO | 51 | 52 | 52 | | 57 | 59 | 58 | 53 |
| DON'T KNOW | 12 | 11 | 12 | | 11 | 11 | 12 | 13 |
| NO ANSWER | 4 | 4 | 3 | | 3 | 3 | 3 | 3 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

CHART 3

INDEX OF SMALL BUSINESS OPTIMISM




"Spending Plans" between. This order is further evidence that much of the more optimistic assessment is a function of general impressions, confidence and beliefs rather than hard evidence. However, the identical relationships among Index components appeared between

October, 1982 and January, 1983 and then again between January and April, 1983. General Expectations led, followed by Spending Plans with Current Status lagging.

TABLE 24

INDEX OF SMALL BUSINESS OPTIMISM
BY MAJOR COMPONENTS

| INDEX COMPONENTS | 1988 APR. | 1989 APR. | 1990 APR. | | 1990 JULY | 1990 OCT. | 1991 JAN. | 1991 APR. |
|---|---|---|---|---|---|---|---|---|
| GENERAL EXPECTATIONS[1] | 108.5 | 110.5 | 114.4 | | 105.0 | 89.3 | 97.3 | 123.3 |
| CURRENT STATUS[2] | 103.0 | 104.3 | 101.3 | | 103.0 | 98.7 | 94.0 | 94.0 |
| SPENDING PLANS[3] | 120.3 | 119.7 | 118.7 | | 113.0 | 107.0 | 111.0 | 118.0 |
| INDEX[4] | 110.4 | 111.4 | 111.9 | | 106.8 | 97.4 | 100.4 | 104.1 |
| INDEX[5] 1978=100 | 101.8 | 102.8 | 100.8 | | 98.2 | 92.3 | 92.6 | 101.8 |

*1 expected business conditions, climate for expansion, expected real sales volume, expected credit conditions*

*2 current job openings, current inventory satisfaction, change in net earnings*

*3 plans to hire, make capital expenditures, add to inventories*

*4 index numbers*

*5 seasonally adjusted*

Single Most Important Problem

"Taxes" was cited most frequently as the single most important small business problem with "Government Regulation/Red Tape" receiving the second most frequent number of cites (Table 25). The former has occupied its ranking since 1982 and the latter its ranking since 1987. In addition, the percent citing these problems has remained relatively stable while they have occupied their rankings.

The third most frequently cited problem, "Poor Sales," has changed notably over the last 12 months. Seventeen percent reported it as their single most important problem in April, two percentage points more than in January and the greatest percentage since 24 percent did so in October, 1982.

As the number citing "Poor Sales" has risen, the number citing "Labor Quality" and, to a lesser extent, "Cost of Labor" has de-

clined. Eighteen (18) percent cited one or the other concerns with labor in July, 1990, compared to 12 percent in April, 1991.

The two commonly juxtaposed policy concerns, interest rates and inflation, were among those that drew least attention from small business owners in April. Just five percent mentioned "Interest Rates/Financing" despite the prominence given the issue in the press. Fewer than that (three percent) cited "Inflation."

TABLE 25

SINGLE MOST IMPORTANT PROBLEM

| SINGLE MOST IMPORTANT PROBLEM | 1990 JULY RANK | JULY % | 1990 OCT. RANK | OCT. % | 1991 JAN. RANK | JAN. % | 1992 APR. RANK | APR. % |
|---|---|---|---|---|---|---|---|---|
| TAXES | 1 | 23 | 1 | 23 | 1 | 25 | 1 | 24 |
| INFLATION | 8 | 4 | 7 | 6 | 8 | 4 | 8 | 3 |
| POOR SALES | 3 | 11 | 3 | 14 | 3 | 15 | 3 | 17 |
| INTEREST RATES & FINANCING | 7 | 7 | 6 | 7 | 6 | 6 | 7 | 5 |
| COST OF LABOR | 6 | 8 | 8 | 5 | 7 | 5 | 5 | 6 |
| GOVT. REG(S)/ RED TAPE | 2 | 18 | 2 | 17 | 2 | 17 | 2 | 18 |
| COMPETITION/ LARGE BUS. | 5 | 9 | 4 | 9 | 4 | 9 | 4 | 10 |
| LABOR QUALITY | 4 | 10 | 4 | 9 | 5 | 7 | 5 | 6 |
| SHORTAGE OF FUEL, MATERIAL | 9 | * | 9 | * | 9 | * | 9 | * |
| OTHER;N/A | - | 13 | - | 10 | - | 10 | - | 11 |
| TOTAL | - | 100 | - | 100 | - | 100 | - | 100 |

Regional Conditions

The rise in the national Index of Small Business Optimism was mirrored by rises in the Index for each region of the country. Everywhere optimism was substantially higher than in was in January. The gains were almost uniform, leaving the relative fortunes of small business owners in the various regions unchanged. Those regions where small business fared best in January were the regions where it generally fared best in April. Those regions where small business fared worst in January were the regions where small busi-

ness generally fared worst in April. Thus, despite improvement throughout the country, regional gaps persisted.

In addition to the relative position of the regions in January, two other indicators -- credit availability and sales -- helped define each region's current Index. Where small business owners found credit comparatively difficult to obtain, the regional Index was comparatively weak. Where small business owners reported weak sales, the regional Index was also comparatively weak.

New England's regional Index rose more on an absolute and percentage basis than did any other (Chart 4). However, the region's Index score continued to be the nation's lowest. The winter was the ninth consecutive quarter that the region's Index fell below the national average. Credit problems appeared more difficult in New England than elsewhere, but no one factor was responsible. Small business owners in the Mid-Atlantic produced an Index somewhat higher than New England's (Chart 4). But it was the only region the Mid-Atlantic surpassed. The same problems plaguing its northern neighbor appeared to be plaguing the Mid-Atlantic as well.

The farther south one moved along the Atlantic seaboard, the better small business conditions were. Just as the Mid-Atlantic Index was higher than New England's, so was the South Atlantic's higher than the Mid-Atlantic's (Chart 4). The difference was that the South Atlantic's Index was substantially higher. In fact, not only did small business owners in the South Atlantic produce the second largest gain between January and April, it ended the quarter with the nation's most positive regional Index.

Small business owners in the East South Central region saw their Index increase least (Chart 5). It was also the nation's third lowest. But the West South Central region didn't do much better (Chart 5). It's credit problems appearred to be improving in the region rather than deteriorating. But, reported sales were comparatively weak. The Great Lakes region continued to be one of the strongest (Chart 5). Despite serious problems in the auto industry which affects many of the region's businesses, large and small, the recovery of the old Rust Belt continues. And, small business continues to be an integral part. After nearly a decade of below average Index scores, April represented the seventh consecutive quarter with the Great Lakes' Index above the national average.

The Pacific region typically provides one of small business's most positive assessments. April was no different. The region's Index was the strongest in the west and trailed only the South Atlantic in the country (Chart 6). However, credit appeared tighter in the Pacific region than in all others but the East. The Mountain region was not far behind the Pacific. Small business owners in the region indicated that theirs was ready to rebound. In fact, the Index for the Mountain region was the nation's third highest (Chart 6). Four regions clustered at the top; four clustered at the bottom. The Plains fell in the middle, belonging to neither group (Chart 6).

War in the Middle East

The euporia brought on by successful prosecution of the Middle East war seemed unrelated to small business views of the economy. While confidence as measured by the outlook stabilized between the March and April measuring periods, the broader Index of Small Business Optimism continued its climb. Small business owners continued to believe the economy was improving. The war's principal economic legacy appears to be the temporary price increase which small firms often could not fully pass on. However, small business price plans suggest that the price issue has already been adressed one way or the other and will have no future effect.

REGIONAL INDICES OF SMALL BUSINESS OPTIMISM
AS A PERCENTAGE OF THE NATIONAL INDEX

CHART 4
NEW ENGLAND, MID-ATLANTIC, SOUTH ATLANTIC REGIONS

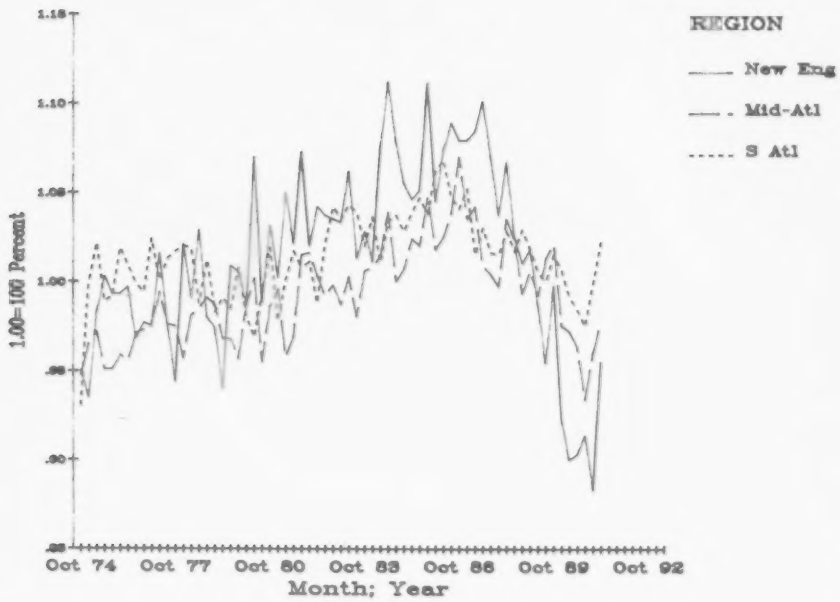


CHART 5

GREAT LAKES, EAST SOUTH CENTRAL, PLAINS REGIONS

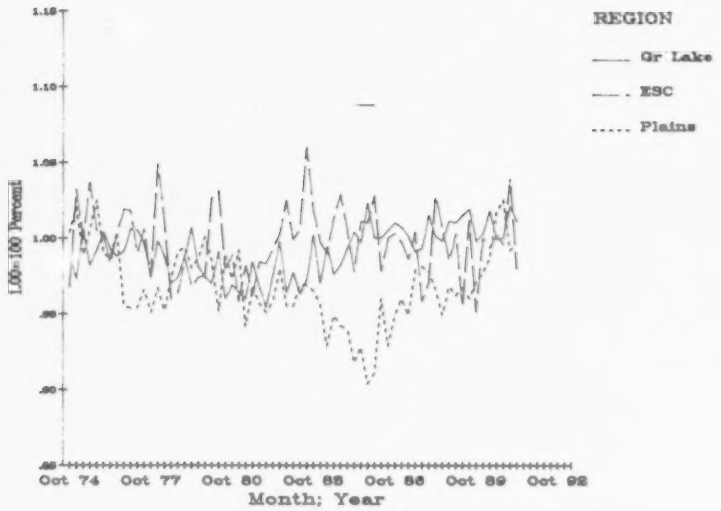
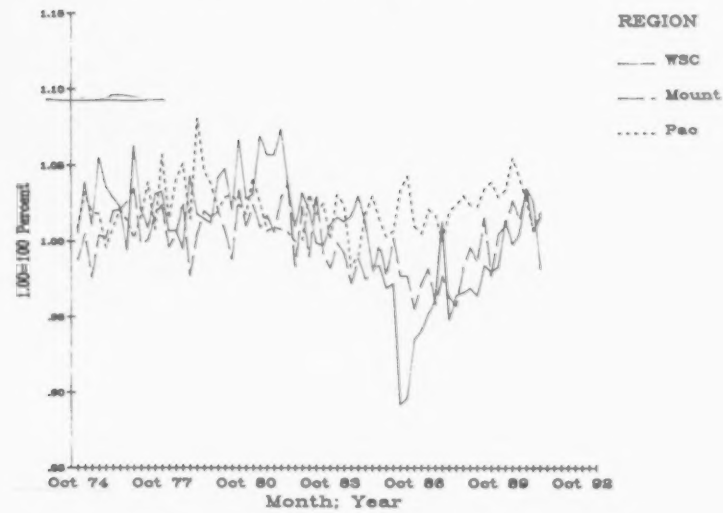



CHART 6

WEST SOUTH CENTRAL, MOUNTAIN, PACIFIC REGIONS



APPENDIX

Table A-1
Description of Industry Classification

| Industry | Industry Examples |
|---|---|
| Construction | Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, highway and bridge, etc.) |
| Manufacturing/ Mining | (Includes dairy processor, printer, publisher machine shop, oil field service, etc.) |
| Transportation/ Communication | Truckers, movers, warehouse, travel agent, broadcasters, public utilities |
| Wholesale | (Includes manufacturer's representative, grain elevator, distributor) |
| Retail | (Includes service station, restaurant, bar, clothing store, flower shop) |
| Agriculture | Veterinarian, forestry, fishing, nursery |
| Financial Services | Finance, insurance, real estate |
| Services | Beauty salon, garage, motel, repair service, bookkeeper, photographer, funeral director, credit bureau, laundry |
| Professional Services | Physician, dentist, engineer, architect, accountant, nursing home operator, lawyer |

Table A-2
Definition of Regions

| Region | States |
|---|---|
| New England | Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont |
| Mid-Atlantic | New Jersey, New York, Pennsylvania |
| Great Lakes | Illinois, Indiana, Michigan, Ohio, Wisconsin |
| Plains | Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota |
| South Atlantic | Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia (includes Washington, DC) |
| East South Central | Alabama, Kentucky, Mississippi, Tennessee |
| West South Central | Arkansas, Louisiana, Oklahoma, Texas |
| Mountain | Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming |
| Pacific | Alaska, California, Hawaii, Oregon, Washington |

Table A-3
Profile of Respondents

| Industry | Percent | Number |
|---|---|---|
| Construction | 15 | 326 |
| Manufacturing | 14 | 301 |
| Transportation/Communication | 2 | 63 |
| Wholesale | 7 | 152 |
| Retail | 27 | 592 |
| Agriculture | 5 | 122 |
| Financial Services | 8 | 164 |
| Service | 15 | 321 |
| Professional Services | 7 | 142 |
| No Answer | * | 0 |
| Total | 100 | 2184 |

| Employee Size | Percent | Number |
|---|---|---|
| 1 - 2 | 16 | 358 |
| 3 - 5 | 27 | 593 |
| 6 - 9 | 20 | 440 |
| 10 - 14 | 13 | 277 |
| 15 - 19 | 7 | 146 |
| 20 - 39 | 9 | 191 |
| 40 or More | 7 | 158 |
| No Answer | 1 | 21 |
| Total | 100 | 2184 |

| Region | Percent | Number |
|---|---|---|
| New England | 6 | 121 |
| Mid-Atlantic | 11 | 230 |
| South Atlantic | 11 | 245 |
| Great Lakes | 18 | 391 |
| East South Central | 4 | 105 |
| West South Central | 11 | 233 |
| Plains | 13 | 291 |
| Mountain | 8 | 179 |
| Pacific | 18 | 389 |
| Total | 100 | 2184 |

# NFIB QUARTERLY ECONOMIC SURVEY

**Please (circle) the appropriate answers or fill in the blanks.**

1. What is your form of business organization?

   [1] Proprietorship [2] Partnership [3] Corporation 1

2. Please classify [your major business activity] using [one] of the categories of examples below. (If more than one applies, circle ***the one*** which contributes the most toward your gross sales or total revenues.)

   [1] Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, ***etc.***)
   [2] Manufacturing and mining (including dairy processor, printer, publisher, ***etc.***)
   [3] Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, ***etc.***)
   [4] Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., ***etc.***) 2
   [5] Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, ***etc.***)
   [6] Agriculture, veterinarian, forestry, landscaping, fisheries, ***etc.***
   [7] Financial, insurance, real estate, bank, savings & loan, ***etc.***
   [8] Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, ***etc.***
   [9] Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, ***etc.***
   [10] Other (please describe)_____

3. What is the [single] most important problem facing [your business] today? (Please circle only **ONE** of the following):

   [1] Taxes [4] Interest rates & financing [8] Quality of labor
   [2] Inflation [5] Cost of labor [9] Shortage of fuels, materials or goods 3
   [3] Poor sales [6] Government regulation(s) & red tape [0] Other_____
   [7] Competition from large businesses (please explain)

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

   [1] Yes [2] No [3] Uncertain 4

   4a. Why? (Circle **ONE** answer – ***most important reason***)

   [1] Economic conditions [3] Financing & interest rates [5] Other_____ 5
   [2] Sales prospects [4] Cost of expansion (please explain)

5. About the [economy in general,] do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

   [1] Much better [3] About the same [5] Much worse 6
   [2] Somewhat better [4] Somewhat worse [6] Don't know

6. During the last 3 months or calendar [quarter,] what were your [gross sales,] or revenues?

   [1] Under $12,500 [3] $25,000–49,999 [5] $87,500–199,999 [7] $375,000–749,999 7
   [2] $12,500–24,999 [4] $50,000–87,499 [6] $200,000–374,999 [8] $750,000 or more

   6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

   [1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 8

   6b. If [higher or lower,] by approximately what percentage?

   [1] Less than 6% [3] 11%–15% [5] 21%–25% [7] 36%–50% 9
   [2] 6%–10% [4] 16%–20% [6] 26%–35% [8] 51% or more

7. Were your [net earnings] or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

   [1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 10

   7a. If [higher or lower,] by approximately what percentage?

   [1] Less than 6% [3] 11%–15% [5] 21%–25% [7] 36%–50% 11
   [2] 6%–10% [4] 16%–20% [6] 26%–35% [8] 51% or more

7b. If [higher or lower,] what is the ***most important reason***? (Circle only **ONE**)

[1] Sales volume
[2] Labor costs
[3] Cost of materials
[4] Availability of materials
[5] Received higher prices for your product or service
[6] Financing costs
[7] Usual seasonal change
[8] Other _____ (Specify)

12

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***?

[1] Go up a lot
[2] Go up a little
[3] Stay the same
[4] Go down a little
[5] Go down a lot
[6] Don't know

13

9. How are your [average selling prices] now compared to three months ago?

[1] Lower now
[2] No difference
[3] Higher now
[4] Don't know

14

9a. If ***higher or lower***, by what percent, on an average?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

15

10. In the ***next three months***, do you plan to ***change*** the [average selling prices] of your goods and/or services?

[1] Yes, raise prices
[2] Yes, lower prices
[3] No change
[4] Don't know

16

10a. If raise or lower, by what percent, ***on average***?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

17

11. How many employees do you have [full and part-time] ***including yourself***?

[1] One
[2] Two
[3] 3–5
[4] 6–9
[5] 10–14
[6] 15–19
[7] 20–39
[8] 40 or more

18

12. During the ***last three months***, did the ***total*** number of employees in your firm increase, decrease, or stay about the same?

[1] Increased by ____ employee(s)
[2] Decreased by ____ employee(s)
[3] Stayed the same

19-21

12a. If the ***total number*** of employees [increased or decreased,] was this change due primarily to ***seasonal factors*** affecting your business?

[1] Yes
[2] No

22

13. In the ***next three months***, do you expect to increase or decrease the total [number of people working for you?]

[1] Increase
[2] Keep the same
[3] Decrease

23

14. Do you have any [job openings] that you are ***not*** able to fill right now?

[1] Yes, for skilled labor
[2] Yes, for unskilled labor
[3] Yes, both skilled and unskilled labor
[4] No

24

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation)

[1] Less than one month
[2] One month, but less than three months
[3] Three months, but less than six months
[4] Six months or more

25

15. During the last three months, did you increase or decrease your inventories?

[1] Increase
[2] About the same
[3] Decrease
[4] Not appropriate

26

15a. If [increase or decrease,] by approximately what percent?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50%
[8] 51% or more

27

16. At the present time, do you feel your [inventories] are too large, about right, or inadequate?

[1] Too large
[2] About right
[3] Too low
[4] Not appropriate

28

16a. Looking ahead to the [next three to six months,] do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

[1] Add
[2] Keep the same
[3] Decrease
[4] Not appropriate

29

**(See next page)**

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

[1] Much higher [3] Same [5] Much lower [7] Inapplicable, do not borrow regularly 30
[2] Higher [4] Lower [6] Don't know

17a. Are these loans easier or harder to get than they were ***three months ago***?

[1] Easier [2] Same [3] Harder [4] Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

[1] Easier [2] Same [3] Harder [4] Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? _____ % or Prime + _____ 33-35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

| | | |
|---|---|---|
| Equipment, Vehicles: | [1] Yes | 36 |
| Additional Buildings: | [1] Yes | 37 |
| Improved Buildings: | [1] Yes | 38 |
| Additional Land: | [1] Yes | 39 |

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

[1] under $1,000 [4] $10,000-19,999 [7] $100,000-499,999 40
[2] $1,000-4,999 [5] $20,000-49,999 [8] $500,000-999,999
[3] $5,000-9,999 [6] $50,000-99,999 [9] $1 million or more

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

[1] Yes [2] No [3] Don't know 41

**PLEASE DO NOT REMOVE ADDRESS LABEL**
(Needed for compiling geographical and industry information)

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

[1] Increase [2] Keep the same [3] Decrease [4] Don't know 42

21a. If Increase or Decrease, by what percentage on average?

[1] 1-2% [3] 5-6% [5] 9-10% [7] Don't know 43
[2] 3-4% [4] 7-8% [6] Over 10%

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

[1] Increased [2] Kept the same [3] Decreased 44

22a. If Increased or Decreased, by what percentage on average?

[1] 1-2% [3] 5-6% [5] 9-10% 45
[2] 3-4% [4] 7-8% [6] Over 10%

23. Please indicate the geographical area that best describes the community in which your business is located.

[1] A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
[2] A small city (population over 15,000 but under 100,000 in city and immediate area)
[3] A rural area (population under 15,000 in city and surrounding communities)

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# Quarterly Economic Report for Small Business

## Summer 1991

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Prepared by
**The NFIB Foundation**

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**QUARTERLY ECONOMIC REPORT**
**FOR SMALL BUSINESS**
**(REPORT NO. 72)**

The 72nd in a series of quarterly economic reports based on survey data obtained during July 1991 by questionnaire from member firms of the National Federation of Independent Business, San Mateo, CA.

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SUMMARY OF RESULTS

by

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The economy appeared to be stalling in July and small business was stalling right with it. The month's survey data showed small business owners remaining very positive about future conditions, but hesitating to initiate any new or additional economic activity. The result was a growing gap between plans and performance. Poor sales was the primary factor causing small business plans to go unmet. While sales were clearly rising, the pace of change was so slow that many owners decided they could not support the inventory or employment increases previously planned. Credit availability did not measurably contribute to the plans/performance gap. It has changed little over the last year. Rising prices didn't, either. In fact, the evidence from small business owners indicates that the country probably will experience a period of price stability with low inflation.

The Index of Small Business Optimism, a reliable forecasting tool for change in real GNP, moved laterally. On a quarter to quarter basis, the change between April and July was minimal. On a month to month basis, the Index has bobbed in a narrow band since March, and July fit the pattern. While several months ago the Index left little doubt the recession would end in the spring, it has shown no strength since. Everything right now begins with sales, and sales continued to be weak. The result was comparatively low

---

This report is based on a random sample survey of NFIB members conducted during the month of July, 1991. Two thousand one hundred and forty-four (2,144) small and independent business owners returned usable questionnaires from the 7,202 mailed for a 29.8 percent response rate. A profile of respondents is located in the Appendix.

levels of employment growth, inventory expansion, and capital outlays. Earnings over the prior three months again appeared relatively poor, though the Index of Small Business Earnings turned up for the first time in 18 months.

It is easy to interpret July's small business data pessimistically. Yet, with the emphasis on the spring/summer weakness, positive signs were plentiful. The signs were just not as positive or gaining as rapidly as we have come to expect. The three recessions prior to the 1990-91 recession were characterized by steep declines and rapid ascents. This recession was different. But, small business owners continued to be optimistic, believing better conditions, including increased sales, would arrive soon. More than a feeling supported their views. Sales did grow; job openings moved higher; inventory balances were on the whole satisfactory; credit conditions, if not favorable, were at least not adverse. It was just that these "good" things were not happening quickly.

Outlook

The small business outlook typified the tenor of July's entire report -- owners expected conditions to substantially improve, but they experienced relatively little improvement to date. Just 11 percent characterized the present as a good time for small business expansion (Table 1). That assessment actually represented a marginal decline from April's 14 percent. Though far more positive than the five percent recorded last October and January, July 1991's level was still three percentage points off July 1990's level and eight percentage points below the last recovery as measured in July, 1983.

TABLE 1

CLIMATE FOR SMALL-BUSINESS EXPANSION IN NEXT QUARTER

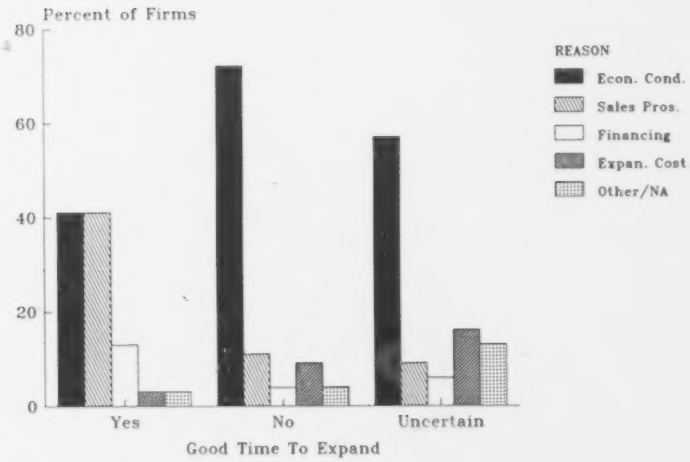
| GOOD TIME TO EXPAND | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| YES | 19 | 17 | 14 | | 5 | 5 | 14 | 11 |
| NO | 43 | 45 | 54 | | 74 | 74 | 56 | 60 |
| UNCERTAIN | 37 | 37 | 32 | | 21 | 20 | 29 | 28 |
| NO ANSWER | 1 | 1 | * | | * | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

"General economic conditions" lay behind the tepid assessment. Nearly three of four owners who believed current conditions not conducive to small business expansion cited the economy in general

as the primary reason for their view (Chart 1). Specific conditions, such as sales prospects, financing conditions, and expansion costs, were cited by comparatively few. Those not certain about the climate for expansion were somewhat more likely to offer a specific reason for their view, but nearly three in five of this group also cited general economic conditions.

CHART 1

"GOOD TIME TO EXPAND" BY REASON
FOR VIEW OF EXPANSION




With no more than six percent attributing a negative or uncertain view to financing conditions, it seems clear that credit problems have comparatively little to do with the current state of small business. That fact is born out elsewhere in this report. (See, Credit Conditions and Single Most Important Problem.) The same is generally true for expansion costs, i.e., inflation. While over twice as many cited expansion costs as cited financing conditions, it too proved to be a relatively unimportant reason for a negative or uncertain assessment of the climate. (See, Prices and Single Most Important Problem.) The apparent lack of sales prospects, however, was not consistent with data found elsewhere in this report. (See, Sales and Single Most Important Problem.) The most likely explanation for this inconsistency is that many respondents subsumed sales under general economic conditions.

By contrast, small business owners who believed it a good time for expansion were nearly as likely to cite sales prospects as they were to cite general economic conditions. This suggests that slowly improving sales are having a favorable impact on the current climate for some small business owners. However, the percent of-

fering financing as the reason for a positive assessment fell nearly in half from April. Improvement in financing conditions has slowed dramatically over the last three months. (See, Credit Conditions.)

The slow pace of recovery have done relatively little to adversely impact expectations of future conditions. In July, 42 percent believed general business conditions would get better in the next three to six months compared to just 10 percent who believed they would get worse (Table 2). While July's outlook showed a net 1[illegible] percentage point deterioration from April's, the decline was minimal on a seasonally-adjusted basis. In fact, the current outlook remained at one of its higher points in this survey's 18 year history.

Expectations for improved conditions have been running high since at least March. While real, favorable changes have slowly occurred, the question is how long will small business owners remain so positive in the face of uninspiring growth. The 1980 to 1984 experience is suggestive. Following the brief, sharp 1980 recession, the outlook recovered spectacularly. The onset of the longer 1981-82 recession dampened optimism just marginally. Recovery brought a survey record high, and then a tumble in late 1983 and early 1984 when conditions became so favorable they would have been virtually impossible to improve upon. Thus, though small business owners may yet have to wait for conditions to get substantially better, the past indicates they can hold a positive outlook for a considerable period.

TABLE 2

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

| EXPECTED CONDITIONS | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| MUCH BETTER | 1 | 1 | 1 | | 1 | 3 | 5 | 2 |
| BETTER | 15 | 14 | 16 | | 11 | 24 | 46 | 40 |
| SAME | 54 | 58 | 53 | | 36 | 38 | 37 | 43 |
| WORSE | 18 | 19 | 20 | | 36 | 21 | 7 | 9 |
| MUCH WORSE | 3 | 2 | 2 | | 7 | 4 | 1 | 1 |
| DON'T KNOW | 8 | 6 | 7 | | 9 | 10 | 4 | 5 |
| NO ANSWER | 1 | * | 1 | | * | * | * | * |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Credit Conditions

Credit availability in the second quarter was unchanged from what it has been over the last year while declines in the cost of credit slowed. Borrowing frequency held at comparatively low levels indicating minimal credit use for such activities as inventory expansion. Though credit problems remained, the severe region and industry discrepancies that characterized so much of the last few years were diminishing. The dilemma was that improvement for some apparently came at the expense of others.

One percent reported credit easier to obtain in the last three months compared to the prior three; 12 percent reported it harder (Table 3). These numbers indicated that credit has been more difficult to obtain in the last quarter than it has been historically, but no more so than in the three prior recessions. In fact, credit has been somewhat easier to obtain in this recession. What distinguished credit conditions during the 1990-91 recession was that reported availability problems did not rise sharply as the country entered the recession and they did not fall sharply as the country left it. In addition, credit availability has varied little in the last 18 months despite the recession in the middle (Chart 2).

TABLE 3

CURRENT AVAILABILITY OF LOANS
COMPARED TO AVAILABILITY IN PRIOR QUARTER

| LOAN AVAILABLITY | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| EASIER | 1 | 1 | 1 | | 1 | 1 | 1 | 1 |
| SAME | 25 | 25 | 22 | | 20 | 20 | 23 | 20 |
| HARDER | 7 | 8 | 11 | | 11 | 11 | 12 | 12 |
| DON'T KNOW | 2 | 1 | 1 | | 2 | 2 | 1 | 2 |
| DON'T BORROW; NO ANSWER | 65 | 65 | 64 | | 66 | 66 | 63 | 65 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

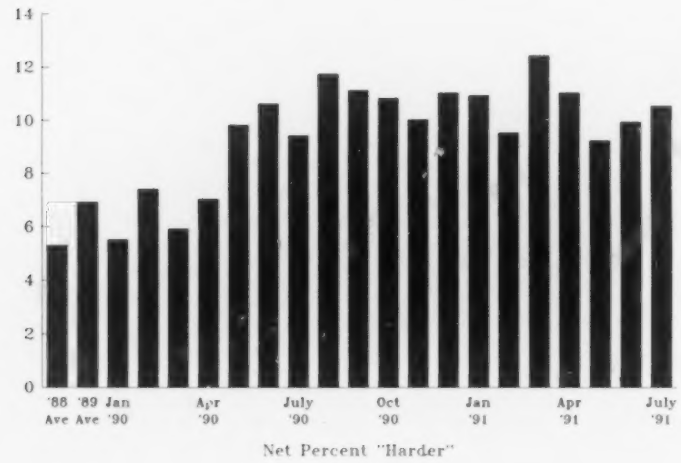
The stark regional and industry contrasts previously noted in these reports was largely absent from July's data. Differences still existed, but they were comparatively small. Regions where credit availability has been a problem, e.g., New England, continued to report more problems than elsewhere. The reverse was also true. The Pacific and Great Lakes regions continued to report the fewest. An even greater change occurred by industry. The construction and financial services industries, both extremely sen-

sitive to credit conditions, were no more likely to report availability problems than were those in other industries.

The narrowing or elimination of regional and industry differences probably represents a positive element in July's report. It certainly does for those who have been most severely impacted. But with no net improvement in credit availability, the improvement experienced by some apparently came at the expense of others. The result is a change in the balance, though not in the magnitude, of those impacted.

CHART 2

NET PERCENT REPORTING CREDIT
"HARDER" TO OBTAIN




The new year saw interest rates paid by small business owners falling. They continued to fall in the second quarter, but the pace was much reduced (Table 4). Average interest rates on short-term loans stood at 11.0 percent, down two-tenths of a percent from the first quarter (Table 5). The rate was about 2.5 percentage points above New York posted prime. The spread historically is about two percentage points suggesting that there is still room for rate declines or that lenders are increasing margins. The latter is the more likely possibility given the health of the banking industry.

Just 35 percent reported themselves regular borrowers in July, two percentage points fewer than in April. Weak demand for short-term loans, particularly in light of poor earnings performance

TABLE 4

INTEREST RATES PAID ON SHORT-TERM LOANS

| INTEREST RATE | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| UNDER 10% | 4 | 1 | 1 | | 1 | 2 | 3 | 6 |
| 10-12% | 34 | 24 | 41 | | 38 | 36 | 39 | 38 |
| 13-15% | 7 | 17 | 11 | | 9 | 9 | 7 | 8 |
| 16% OR MORE | 2 | 2 | 2 | | 3 | 3 | 3 | 3 |
| PRIME +1 | 29 | 29 | 25 | | 31 | 26 | 27 | 26 |
| PRIME +2 | 23 | 23 | 18 | | 15 | 21 | 19 | 17 |
| PRIME +3 OR MORE | 4 | 4 | 2 | | 3 | 3 | 2 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |
| AVERAGE RATE (%) | 11.2 | 12.8 | 11.9 | | 11.9 | 11.9 | 11.2 | 11.0 |

(see, Earnings), indicates little effort to undertake new or additional activity such as expanding inventories. (See, Inventories.) The end of the recession should have brought additional demand for borrowed capital. Thus far, it has not.

Small business owners do not expect credit conditions to improve in the next quarter. Just one percent thought they would get "easier" compared to 12 percent who thought they would get "harder" (Table 6). The resulting net -11 percentage points approximates the levels observed in each of the last four quarterly measuring periods. Expectations are above recession levels, but cannot match the non-recession -6 percent average.

## Prices

Prospects for price stability continued to improve. Fewer small business owners indicated that they had raised average selling prices in the second quarter than did in the first, and fewer yet planned them for the third. From the perspective of almost anyone but the small business owner caught between weak sales and poor earnings, prices proved the most positive aspect of July's small business report.

TABLE 5

CURRENT INTEREST RATES COMPARED TO
INTEREST RATES IN PRIOR QUARTER

| RELATIVE INTEREST RATES | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| MUCH HIGHER | * | 1 | * | | 1 | * | * | * |
| HIGHER | 17 | 14 | 8 | | 8 | 4 | 3 | 4 |
| SAME | 15 | 12 | 24 | | 23 | 22 | 17 | 19 |
| LOWER | 1 | 7 | 2 | | 1 | 7 | 16 | 11 |
| MUCH LOWER | * | * | * | | * | * | * | * |
| DON'T KNOW | 2 | 1 | 2 | | 1 | 1 | 1 | 1 |
| DON'T BORROW; NO ANSWER | 65 | 65 | 64 | | 66 | 66 | 63 | 65 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER
COMPARED TO CURRENT QUARTER

| CREDIT EXPECTATIONS | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| EASIER | 2 | 1 | 1 | | * | 1 | 2 | 1 |
| SAME | 22 | 23 | 28 | | 17 | 16 | 21 | 20 |
| HARDER | 8 | 8 | 12 | | 14 | 13 | 11 | 12 |
| DON'T KNOW | 3 | 3 | 3 | | 3 | 4 | 3 | 2 |
| DON'T BORROW; NO ANSWER | 65 | 65 | 64 | | 66 | 66 | 63 | 65 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Just 20 percent related higher average selling prices in the second quarter than in the first (Table 7). July's figure repre-

sented a five percentage point decline from April and the fewest increases since October, 1986. Sixteen (16) percent, the same number as in April, cut average prices. That level of price cutting has not been recorded since April, 1986.

TABLE 7

CURRENT AVERAGE SELLING PRICES COMPARED TO
PRIOR QUARTER'S AVERAGE SELLING PRICES

| AVERAGE SELLING PRICES | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| LOWER NOW | 9 | 9 | 11 | | 13 | 14 | 16 | 16 |
| NO DIFFERENCE | 58 | 59 | 63 | | 58 | 59 | 57 | 62 |
| HIGHER NOW | 29 | 29 | 24 | | 27 | 24 | 25 | 20 |
| < 1% | 1 | 1 | * | | 1 | * | 1 | 1 |
| 1.0-1.9% | 3 | 3 | 3 | | 2 | 2 | 3 | 2 |
| 2.0-2.9% | 5 | 5 | 4 | | 3 | 4 | 4 | 3 |
| 3.0-3.9% | 3 | 4 | 3 | | 4 | 4 | 3 | 2 |
| 4.0-4.9% | 4 | 4 | 4 | | 4 | 3 | 3 | 3 |
| 5.0-7.9% | 6 | 6 | 5 | | 6 | 6 | 6 | 5 |
| 8.0-9.9% | 1 | 1 | 1 | | 1 | 1 | 1 | 1 |
| 10% OR MORE | 5 | 4 | 3 | | 5 | 3 | 3 | 2 |
| NO ANSWER | 1 | 1 | 1 | | 1 | 1 | 1 | 1 |
| NO ANSWER | 4 | 3 | 2 | | 3 | 2 | 2 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Greatest price pressures appeared at the end of the production-distribution chain. Financial services, i.e., finance, insurance and real estate, was the industry most frequently raising prices (31%). Retail followed at 26 percent. Agriculture (11%), transportation (12%), and manufacturing (13%) were the industries least likely to increase average selling prices. Industries where price cutting was most pronounced were generally, though not always, a mirror image. Price reductions were most common in agriculture (40%), construction (20%) and wholesale (18%). They were least common in the professional services (2%) and the services (10%).

With price pressures apparently relieved during the second quarter, plans to raise prices in the third should have, and indeed did, decline. Only 19 percent planned price increases, down two percentage points from April and the fewest since April, 1987 (Table 8). No industry experienced plans with substantialy greater frequency than did any other. Clearly, some type of floor has been reached at a level similar to 1986's. This suggests that the inflation rate will remain relatively low and stable for a period, barring a substantial policy change or economic shock of some type.

TABLE 8

PLANNED PRICE CHANGES FOR THE NEXT QUARTER

| PLANNED PRICE CHANGES | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 JAN. % | 1991 APR. % |
|---|---|---|---|---|---|---|---|---|
| LOWER | 2 | 3 | 3 | | 4 | 6 | 3 | 3 |
| NO CHANGE | 53 | 59 | 58 | | 49 | 48 | 59 | 61 |
| INCREASE | 26 | 24 | 23 | | 30 | 28 | 21 | 19 |
| < 1% | * | * | 1 | | 1 | * | 1 | * |
| 1.0-1.9% | 2 | 3 | 2 | | 2 | 3 | 2 | 2 |
| 2.0-2.9% | 3 | 4 | 4 | | 4 | 4 | 3 | 4 |
| 3.0-3.9% | 4 | 3 | 3 | | 4 | 3 | 3 | 2 |
| 4.0-4.9% | 4 | 3 | 3 | | 5 | 4 | 3 | 2 |
| 5.0-7.9% | 7 | 6 | 5 | | 8 | 8 | 6 | 5 |
| 8.0-9.9% | 2 | 1 | 1 | | 1 | 1 | * | 1 |
| 10% OR MORE | 3 | 3 | 3 | | 3 | 3 | 2 | 2 |
| DON'T KNOW | 2 | 1 | 1 | | 2 | 2 | 1 | 1 |
| DON'T KNOW | 14 | 12 | 15 | | 15 | 17 | 15 | 15 |
| NO ANSWER | 5 | 2 | 1 | | 2 | 1 | 2 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

## Compensation

Employee compensation increases reflected lower inflation and weak sales. They were relatively infrequent and small, driven as high as they were only by April 1's minimum wage hike. The third quarter should produce a survey record low.

Twenty-two (22) percent reported raising average employee compensation during the spring quarter; three percent reported decreasing it (Table 9). Excepting the fourth quarter, 1990, the spring quarter experienced the fewest increases since the third quarter of 1986. The average increase among those raising compensation was also relatively small, 5.6 percent. The result across all firms was increases amounting to 1.2 percent. Considering the continuing significant increases in health insurance costs and lesser rises in other employee benefits, wage increases were modest.

TABLE 9

CHANGE IN AVERAGE COMPENSATION
OVER THE PRIOR QUARTER

| COMPENSATION CHANGE | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| INCREASED | 25 | 26 | 29 | | 24 | 18 | 23 | 22 |
| 1-2% | 3 | 4 | 4 | | 3 | 1 | 3 | 4 |
| 3-4% | 7 | 6 | 7 | | 7 | 2 | 7 | 6 |
| 5-6% | 8 | 9 | 9 | | 7 | 5 | 8 | 6 |
| 7-8% | 3 | 3 | 2 | | 3 | 5 | 2 | 2 |
| 9-10% | 2 | 3 | 3 | | 2 | 2 | 2 | 2 |
| OVER 10% | 2 | 1 | 3 | | 2 | 2 | 1 | 1 |
| NO ANSWER | * | * | 1 | | * | 1 | * | 1 |
| SAME | 69 | 67 | 64 | | 69 | 75 | 69 | 70 |
| DECREASED | 1 | 1 | 1 | | 2 | 2 | 2 | 3 |
| NO ANSWER | 5 | 6 | 6 | | 5 | 5 | 6 | 5 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| AVERAGE INCREASE | % | % | % | | % | % | % | % |
|---|---|---|---|---|---|---|---|---|
| FIRMS INCREASING | 5.9 | 6.0 | 6.0 | | 5.9 | 5.7 | 5.5 | 5.6 |
| ALL FIRMS | 1.5 | 1.5 | 1.7 | | 1.4 | 1.0 | 1.0 | 1.2 |

A survey record low, 14 percent, planned average compensation increases in the coming three months (Table 10). The series debuted in April, 1984, so it covers a relatively short period. Yet, July, 1991's, level was two percentage points beneath the 14 percent recorded in July, 1986. Planned increases amounted to 5.3 percent or 0.7 percent across all firms.

TABLE 10

PLANS TO CHANGE AVERAGE COMPENSATION
OVER THE NEXT QUARTER

| COMPENSATION CHANGE | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| INCREASE | 18 | 22 | 22 | | 18 | 20 | 19 | 14 |
| 1-2% | 1 | 2 | 2 | | 2 | 1 | 2 | 2 |
| 3-4% | 6 | 6 | 6 | | 6 | 2 | 6 | 4 |
| 5-6% | 6 | 6 | 7 | | 6 | 7 | 5 | 5 |
| 7-8% | 1 | 2 | 1 | | 1 | 7 | 2 | 1 |
| 9-10% | 2 | 1 | 1 | | 2 | 2 | 1 | 1 |
| OVER 10% | 1 | * | * | | * | 1 | 1 | 1 |
| DON'T KNOW | 1 | * | * | | 1 | * | 1 | * |
| NO ANSWER | * | 1 | * | | * | * | 1 | * |
| SAME | 67 | 69 | 70 | | 67 | 66 | 66 | 72 |
| DECREASE | 1 | 1 | 1 | | 2 | 2 | 2 | 2 |
| DON'T KNOW | 11 | 9 | 9 | | 10 | 10 | 10 | 10 |
| NO ANSWER | 3 | 3 | 3 | | 3 | 2 | 2 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| AVERAGE INCREASE | % | % | % | | % | % | % | % |
|---|---|---|---|---|---|---|---|---|
| FIRMS INCREASING | 5.8 | 5.6 | 5.4 | | 5.5 | 5.5 | 5.6 | 5.3 |
| ALL FIRMS | 1.0 | 1.0 | 0.9 | | 1.0 | 1.1 | 1.0 | 0.7 |

## Sales

Small business sales moved higher in the second quarter compared to the first. Yet, the change was not large enough to stimulate small business owners to replenish inventories (see, Inventories, make capital expenditures (see, Capital Expenditures), or add new employees to the payroll (see, Employment). In fact, demand remained a serious problem for many owners. (See, Single Most Important Problem). The slow sales rebound, however, has not affected sales expectations. Most small business owners believed sales would perk up in the next three months just as they believed it would happen three months ago.

Thirty-three (33) percent reported increased sales in the second quarter compared to 28 percent who reported them lower (Table 11). The seasonally adjusted Index of Small Business Sales rose 11 percent from April, yet remained at only 95 percent of last October's Index level (capturing the first quarter of the recession) and just 89 percent of last July's (Chart 3). Thus, while the direction was encouraging, the size of the increase was not.

TABLE 11

DOLLAR SALES VOLUME COMPARED TO PRIOR QUARTER'S DOLLAR SALES VOLUME

| DOLLAR SALES VOLUME | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| MUCH HIGHER | 4 | 3 | 3 | | 3 | 3 | 2 | 3 |
| HIGHER | 36 | 36 | 34 | | 27 | 22 | 21 | 30 |
| ABOUT THE SAME | 38 | 40 | 41 | | 43 | 39 | 36 | 39 |
| LOWER | 18 | 17 | 18 | | 23 | 30 | 32 | 23 |
| MUCH LOWER | 3 | 3 | 3 | | 4 | 6 | 9 | 5 |
| NO ANSWER | 1 | 1 | 1 | | * | * | * | * |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Small business owners continued to be upbeat over sales prospects. Forty-eight (48) percent believed sales would increase in the next three months compared to the spring quarter; just 17 percent forecast that sales would fall (Table 12). Seasonal adjustment put expectations at April's levels. While sales expectations in both April and July contrasted sharply with those registered in the recession, their levels more closely resembled the mature 1985-89 period rather the 1983-84 recovery. They were quite positive, but far from exuberant. This suggests that small business owners

still expect a sales rebound, but not of the variety experienced in the early-to-mid 1980's.

CHART 3

INDICES OF SMALL BUSINESS SALES
AND SMALL BUSINESS EARNINGS

## Earnings

The 1990-91 recession played havoc with small business earnings as all recessions do. However, the second quarter exhibited some improvement for the first time in a year. Poor sales remained the problem behind the unsatisfactory, but slowly improving, earnings picture.

Twenty-two (22) percent indicated earnings were higher in the second quarter than in the first compared to 47 percent who reported them lower (Table 13). The seasonally adjusted Index of Small Business Earnings translated these earnings data into an eight percent increase in the Index over the last three months. In fact, the Index recovered its October level, though it was still only 89 percent of last July's and relatively poor historically (Chart 2).

Weak sales has been the principle reason for the earnings problem. Fifty-four (54) percent of those reporting lower earnings in the second quarter than in the first attributed it to sales volume (Table 14). The 54 percent figure is about the same as it was in April. However, both represented more than a 10 percentage point increase in the number citing sales volume compared to non-

TABLE 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

| EXPECTED REAL SALES | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| GO UP A LOT | 8 | 6 | 6 | | 7 | 5 | 11 | 6 |
| GO UP A LITTLE | 39 | 38 | 37 | | 26 | 26 | 47 | 42 |
| STAY THE SAME | 30 | 32 | 32 | | 24 | 26 | 25 | 30 |
| GO DOWN A LITTLE | 15 | 16 | 17 | | 28 | 29 | 11 | 14 |
| GO DOWN A LOT | 3 | 3 | 3 | | 10 | 8 | 2 | 3 |
| DON'T KNOW | 4 | 3 | 4 | | 4 | 5 | 3 | 4 |
| NO ANSWER | 1 | 1 | 1 | | 1 | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

TABLE 13

NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

| NET EARNINGS | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| MUCH HIGHER | 2 | 1 | 2 | | 1 | 1 | 1 | 2 |
| HIGHER | 25 | 25 | 22 | | 16 | 16 | 15 | 20 |
| SAME | 41 | 41 | 43 | | 44 | 37 | 35 | 39 |
| LOWER | 25 | 28 | 29 | | 33 | 37 | 38 | 32 |
| MUCH LOWER | 4 | 4 | 3 | | 3 | 7 | 9 | 6 |
| NO ANSWER | 3 | 1 | 1 | | 1 | 2 | 2 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

recessionary times. The increase in sales volume as a reason was largely offset by a decline in the percent citing factor costs. Not only have factor costs become a relatively smaller problem, they also became an absolutely smaller problem after last fall's oil price increase passed completely through the system and interest rates began to fall.

TABLE 14

PRIMARY REASONS FOR EARNINGS CHANGE

| REASON FOR HIGHER NET EARNINGS | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| SALES VOLUME | 59 | 56 | 55 | | 55 | 58 | 55 | 55 |
| HIGHER PRICES | 7 | 8 | 9 | | 9 | 10 | 10 | 7 |
| FACTOR COSTS* | 1 | 4 | 6 | | 5 | 5 | 5 | 5 |
| SEASONALITY | 22 | 27 | 25 | | 21 | 22 | 20 | 28 |
| OTHER; NA | 11 | 5 | 5 | | 7 | 5 | 10 | 5 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| REASON FOR LOWER NET EARNINGS | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| SALES VOLUME | 41 | 42 | 44 | | 46 | 49 | 56 | 54 |
| FACTOR COSTS* | 26 | 27 | 28 | | 27 | 19 | 15 | 20 |
| SEASONALITY | 13 | 15 | 14 | | 13 | 17 | 17 | 10 |
| OTHER; NA | 20 | 16 | 14 | | 14 | 15 | 12 | 16 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

** Includes labor, material, and financing costs*

Employment

Small business employment conditions continued their gradual improvement. Owners employed more people and had more job openings in the second quarter than in the first. They expected the third quarter would bring further improvement. Yet, little strength was evident. Sales simply were not strong enough to justify additional employees. (See, Sales.)

Operating small businesses increased net employment for the first time since the third quarter, 1990. Yet, the increase was relatively modest compared to the increases typically experienced in the quarter. Seventeen (17) percent reported net employment rises compared to 15 percent reporting net declines (Table 15). The size of the rises was also marginally larger than the size of the falls. However, actual net employment increases did not approach April's planned level.

TABLE 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

| EMPLOYMENT CHANGE | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| INCREASED | 20 | 21 | 21 | | 14 | 10 | 12 | 17 |
| - SEASONAL | 10 | 11 | 11 | | 5 | 3 | 4 | 9 |
| - NON-SEASONAL | 10 | 10 | 10 | | 9 | 7 | 8 | 8 |
| DECREASED | 10 | 11 | 13 | | 17 | 19 | 19 | 15 |
| - SEASONAL | 2 | 2 | 4 | | 5 | 8 | 6 | 3 |
| - NON-SEASONAL | 8 | 9 | 9 | | 12 | 11 | 13 | 12 |
| NO CHANGE | 68 | 68 | 66 | | 68 | 70 | 68 | 67 |
| NO ANSWER | 2 | * | * | | 1 | 1 | 1 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

| NUMBER OF EMPLOYEES | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| INCREASED (PER FIRM INCREASING) | 3.9 | 4.2 | 3.8 | | 3.8 | 2.9 | 3.6 | 3.7 |
| DECREASED (PER FIRM DECREASING) | 3.3 | 3.1 | 6.2 | | 3.2 | 4.1 | 6.1 | 3.3 |
| AVERAGE NET CHANGE PER ALL FIRMS | +.44 | +.53 | +.36 | | +.01 | -.45 | -.37 | +.05 |

The number of firms with at least one job opening rose two percentage points between April and July, indicating that unemployment has stopped rising and is poised to fall. However, the frequency of job openings remained modest. Just 16 percent reported a job opening in July (Table 16). Aside from the 1990-91 recession, July's number was the poorest since January, 1987. However, the number of operating small businesses with job openings normally expands slowly following a recession. The job openings indicator is, therefore, more typical of prior recoveries than are most other indicators.

TABLE 16

CURRENT JOB OPENINGS

| CURRENT JOB OPENINGS | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| YES | 21 | 24 | 20 | | 19 | 13 | 14 | 16 |
| - SKILLED | 15 | 17 | 15 | | 14 | 10 | 10 | 12 |
| - UNSKILLED | 3 | -3 | 2 | | 2 | 1 | 2 | 2 |
| - BOTH | 3 | 4 | 3 | | 3 | 2 | 2 | 2 |
| NO | 78 | 75 | 79 | | 80 | 86 | 85 | 84 |
| NO ANSWER | 1 | 1 | 1 | | 1 | 1 | 1 | * |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

While April's planned employment increases appeared exaggerated, even in April, July's employment plans seemed more realistic. More small business owners planned increases (13%) than planned decreases (9%)(Table 17). However, their level was below those reported in each of the last three July's. The data indicated that over the next three months small business owners planned to modestly increase the number of people working for them.

## Inventories

Some have argued that business inventories are so low they will soon need to be replenished; inventory rebuilding will, therefore, be the catalyst which sets off the real economic rebound from the last recession. Small business inventories appeared to be relatively lean in July, and have been for some time. Owners, also, planned to add to inventories in the third quarter, and have had such plans for some months. The glitch in the "inventory stimulus" argument, at least from the small business perspective, is that actual rebuilding is not occurring in anticipation of greater

TABLE 17

EXPECTED NET LABOR FORCE CHANGES IN NEXT QUARTER

| NET LABOR FORCE CHANGE EXPECTATIONS | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| INCREASE | 16 | 15 | 16 | | 12 | 13 | 22 | 13 |
| SAME | 73 | 74 | 72 | | 72 | 76 | 71 | 76 |
| DECREASE | 9 | 10 | 10 | | 14 | 10 | 6 | 9 |
| NO ANSWER | 2 | 1 | 2 | | 2 | 1 | 1 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

sales. Rather, it seems that owners are waiting until more customers walk through the door.

Small business owners continued to draw down inventories in the second quarter, something they had not planned doing three months earlier. In April, 19 percent planned to add to inventories and 12 percent planned to draw them down (a net +7 percentage points). Yet, in July, just 15 percent reported adding and 21 percent reported drawing down (a net -6 percentage points)(Table 18). Since inventory plans usually forecast quite well what will actually transpire, the gap between April plans and July performance in-

TABLE 18

INVENTORY CHANGE IN PRIOR QUARTER

| INVENTORY CHANGE | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| INCREASE | 21 | 20 | 19 | | 15 | 13 | 14 | 15 |
| SAME | 45 | 44 | 44 | | 46 | 41 | 43 | 44 |
| DECREASE | 13 | 15 | 16 | | 20 | 25 | 23 | 21 |
| NOT APPLIC. | 19 | 20 | 20 | | 18 | 20 | 19 | 20 |
| NO ANSWER | 2 | 1 | 1 | | 1 | 1 | 1 | * |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

dicates that sales were not strong enough to warrant following through on inventory plans.

Inventory satisfaction provided further evidence that inventory rebuilding was slowed by weak sales. In July, virtually the same number believed inventory balances were too high as believed they were too low (Table 19). The same was true three months ago. These data indicate small business owners have kept inventory rebuilding on a pace with sales growth, and sales growth has been slow (see, Sales.) Infrequent short-term borrowing, often done to finance inventories, leads to the same conclusion. (See, Credit Conditions.)

TABLE 19

CURRENT INVENTORY SATISFACTION

| INVENTORY LEVEL | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| TOO LARGE | 12 | 12 | 11 | | 13 | 13 | 11 | 11 |
| ABOUT RIGHT | 54 | 55 | 57 | | 56 | 56 | 57 | 56 |
| TOO LOW | 10 | 10 | 9 | | 10 | 9 | 10 | 10 |
| NOT APPLIC. | 20 | 19 | 21 | | 18 | 20 | 20 | 22 |
| NO ANSWER | 2 | 4 | 2 | | 3 | 2 | 2 | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

Slow inventory rebuilding robs a good part of the stimulus that might have occurred under other circumstances. But, slow rebuilding has a another side as well. Once sales do rebound, nothing will be left to draw down on. Rebuilding, and probably in a large way, will have to occur. It is also positive for the individual firm. Lean inventories may eliminate a few sales, but it means lower carrying costs and fewer trips to the bank.

Despite the slow sales recovery, small business owners continued to be optimistic in their plans to rebuild inventories. Seventeen (17) percent planned to add inventories in the coming three months compared to 13 percent who planned to decrease them (Table 20). Those numbers are identical to July one year ago, and somewhat more upbeat than the prior two July surveys. They are also consistent with expected real sales (see, Sales), though not with recent sales and inventory experience.

## Capital Expenditures

Capital expenditures proved the weakest part of July's report. Outlays made in the last six months were down, as would be expected

TABLE 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

| PLANNED INVENTORY CHANGE | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| ADD | 16 | 16 | 17 | | 15 | 18 | 19 | 17 |
| NO CHANGE | 45 | 46 | 47 | | 47 | 43 | 47 | 48 |
| DECREASE | 15 | 15 | 13 | | 19 | 15 | 12 | 13 |
| NOT APPLIC. | 21 | 15 | 17 | | 15 | 16 | 17 | 20 |
| NO ANSWER | 3 | 8 | 6 | | 7 | 6 | 6 | 2 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

during a recessionary period. But plans to make new expenditures tumbled, reversing earlier gains.

Fifty-two (52) percent reported making one or more capital expenditures in the last three to six months (Table 21). The number was the poorest since a one quarter dip to 51 percent in July,

TABLE 21

PERCENTAGES MAKING CAPITAL EXPENDITURES IN LAST SIX MONTHS

| TYPE OF EXPENDITURE | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| ALL TYPES* | 56 | 54 | 55 | | 56 | 54 | 53 | 52 |
| - EQUIPMENT, VEHICLES | 44 | 45 | 46 | | 47 | 43 | 43 | 42 |
| - ADDED BUILDINGS | 7 | 7 | 6 | | 6 | 6 | 6 | 6 |
| - IMPROVED BUILDINGS | 16 | 15 | 16 | | 17 | 15 | 15 | 15 |
| - LAND | 3 | 4 | 3 | | 3 | 3 | 3 | 3 |

** percentage of firms making one or more capital expenditures*

1986. A more apt comparison is the 48, 50, and 49 percents recorded in October, 1982, through April, 1983. The most serious attrition appeared to occur in equipment and vehicles which have fallen four percentage points in the last twelve months.

The size of the expenditures made were somewhat smaller on average in July's report than are typical. Forty-four (44) percent of outlays made were $10,000 or less compared to 41 percent in July, 1990, and 35 percent in July, 1989 (Table 22). However, the proportion of investments over $100,000 remained stable. Fewer expenditures and smaller expenditures per outlay yielded the weakest condition since the 1986-87 "lull" and arguably since the 1981-82 recession.

TABLE 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

| AMOUNTS EXPENDED ($1,000s) | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| UNDER 1 | 8 | 4 | 6 | | 5 | 7 | 7 | 7 |
| 1-4 | 20 | 18 | 21 | | 21 | 19 | 21 | 21 |
| 5-9 | 14 | 13 | 14 | | 15 | 14 | 15 | 16 |
| 10-19 | 22 | 24 | 18 | | 22 | 20 | 21 | 20 |
| 20-49 | 17 | 20 | 19 | | 18 | 19 | 17 | 16 |
| 50-99 | 9 | 9 | 10 | | 8 | 10 | 8 | 8 |
| 100-499 | 8 | 11 | 9 | | 9 | 8 | 9 | 10 |
| 500-999 | 2 | * | 1 | | 1 | 1 | 2 | 1 |
| 1,000+ | * | 1 | 1 | | 1 | 2 | * | 1 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

The disturbing element is not what happened; the decline in capital expenditures was a natural outcome of the recession. The disturbing element is what small business owners plan to happen. Plans to make an outlay have tumbled back to January's recession low (seasonally adjusted). Just 26 percent planned one or more outlays in the next three to six months, down five percentage points from April (Table 23). Outside January, it was the worst seasonally adjusted figure since the last recession. However, planned capital outlays held up better throughout the 1990-91 recession than they did in any of the prior three.

TABLE 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

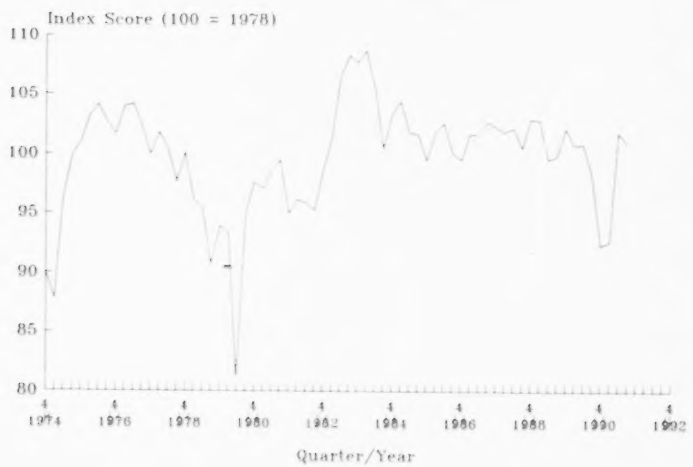
| EXPECTED CAPITAL EXPENDITURES | 1988 JULY % | 1989 JULY % | 1990 JULY % | | 1990 OCT. % | 1991 JAN. % | 1991 APR. % | 1991 JULY % |
|---|---|---|---|---|---|---|---|---|
| YES | 29 | 31 | 29 | | 27 | 27 | 31 | 26 |
| NO | 57 | 55 | 57 | | 59 | 58 | 53 | 57 |
| DON'T KNOW | 11 | 11 | 11 | | 11 | 12 | 13 | 14 |
| NO ANSWER | 3 | 3 | 3 | | 3 | 3 | 3 | 3 |
| TOTAL | 100 | 100 | 100 | | 100 | 100 | 100 | 100 |

## Index of Small Business Optimism

July's Index of Small Business Optimism resembled a holding pattern. It was marginally lower than April's Index score (seasonally adjusted), but higher than May or June's. In fact, since roaring back from recession lows in the winter, the Index has slid sideways for four consecutive months (Chart 4). The Index's

CHART 4

INDEX OF SMALL BUSINESS OPTIMISM



lateral movement suggests that the recovery lost momentum long ago and that additional gains will be slow and marginal. Still, the Index stood on a par with Index scores recorded during most of the late 1980s.

Two of the three Index components fell from April (Table 24). The Current Status component rose, almost offsetting declines the General Expectations and Spending Plans components. This suggests that improvement has occurred, but that beliefs about the future and plans for it are ebbing.

TABLE 24

INDEX OF SMALL BUSINESS OPTIMISM
BY MAJOR COMPONENTS

| INDEX COMPONENTS | 1988 JULY | 1989 JULY | 1990 JULY | | 1990 OCT. | 1991 JAN. | 1991 APR. | 1991 JULY |
|---|---|---|---|---|---|---|---|---|
| GENERAL EXPECTATIONS[1] | 109.3 | 107.8 | 105.0 | | 89.3 | 97.3 | 123.3 | 116.0 |
| CURRENT STATUS[2] | 105.7 | 106.0 | 103.0 | | 98.7 | 94.0 | 94.0 | 99.7 |
| SPENDING PLANS[3] | 113.0 | 112.3 | 113.0 | | 107.0 | 111.0 | 118.0 | 111.3 |
| INDEX[4] | 109.3 | 108.6 | 106.8 | | 97.4 | 100.4 | 104.1 | 101.1 |
| INDEX[5] 1978=100 | 100.5 | .99.8 | .98.2 | | 92.3 | 92.6 | 101.8 | 100.8 |

1 *expected business conditions, climate for expansion, expected real sales volume, expected credit conditions*

2 *current job openings, current inventory satisfaction, change in net earnings*

3 *plans to hire, make capital expenditures, add to inventories*

4 *index numbers*

5 *seasonally adjusted*

## Single Most Important Problem

The distribution of small business owner responses to the single important problem has changed very little since the worst of inflation was crushed in the early 1980's. Since that time, "Taxes" has been cited more frequently as the single most important problem than has any other. July proved no different. One in four small business owners pointed to "Taxes," eight percentage points more than singled out "Government Regulation(s)/Red Tape," the second most frequently cited difficulty (Table 25).

The major change occurring among respondents since 1982 has been "Poor Sales." The problem reached a peak of 17 percent in April, having been 11 percent in July, 1990. The number citing "Poor Sales" slipped back to 15 percent this July, suggesting that sales difficulties have eased somewhat. (See, Sales.) However, July's number was no better than January's providing additional evidence that small business recovery is constrained by sales volume, rather than such phenomenon as a "credit crunch."

"Interest Rates & Financing" received comparatively few mentions. Just five percent cited the problem, countering arguments that the lack of credit is retarding recovery. (See, Credit Conditions.) In fact, the relative infrequency with which "Interest Rates & Financing" has been recently noted, makes it the longest sustained level of infrequent mentions since 1977.

"Competition from Large Business," also a reflection of weak sales, and "Labor Quality" were the next most frequently mentioned single most important problems. "Inflation" drew only four percent, corroborating earlier price data. (See, Prices.)

TABLE 25

SINGLE MOST IMPORTANT PROBLEM

| SINGLE MOST IMPORTANT PROBLEM | 1990 OCT. RANK | OCT. % | 1991 JAN. RANK | JAN. % | 1991 APR. RANK | APR. % | 1991 JULY RANK | JULY % |
|---|---|---|---|---|---|---|---|---|
| TAXES | 1 | 23 | 1 | 25 | 1 | 24 | 1 | 25 |
| INFLATION | 7 | 6 | 8 | 4 | 8 | 3 | 8 | 4 |
| POOR SALES | 3 | 14 | 3 | 15 | 3 | 17 | 3 | 15 |
| INTEREST RATES & FINANCING | 6 | 7 | 6 | 6 | 7 | 5 | 7 | 5 |
| COST OF LABOR | 8 | 5 | 7 | 5 | 5 | 6 | 6 | 7 |
| GOVT. REG(S)/ RED TAPE | 2 | 17 | 2 | 17 | 2 | 18 | 2 | 17 |
| COMPETITION/ LARGE BUS. | 4 | 9 | 4 | 9 | 4 | 10 | 4 | 8 |
| LABOR QUALITY | 4 | 9 | 5 | 7 | 5 | 6 | 4 | 8 |
| SHORTAGE OF FUEL, MATERIAL | 9 | * | 9 | * | 9 | * | 9 | * |
| OTHER;N/A | - | 10 | - | 10 | - | 11 | - | 11 |
| TOTAL | - | 100 | - | 100 | - | 100 | - | 100 |

Regional Conditions

The regions exhibited less diversity in July than they have for some time. Five of the nine regions produced regional Indices of Small Business Optimism within a single percentage point of the national average. Another was within two and yet another was within three. The two outliers were the East South Central region which was nearly five percentage points higher than the national average and New England which was nearly nine percentage ponts lower.

After years of extreme differences, no obvious explanation appeared for the increasing regional homogenization. One possibility is that the industries which appear most troubled, e.g., real estate, are spread across the United States rather than concentrated in just one part. The same is true of industries which are booming, e.g., health care. This contrasts sharply with earlier periods when, for example, oil prices plummeted and the oil-rich West South Central region suffered while others either were not affected or actually benefited.

A second, though unlikely, possibility is that the relative fortunes are in transition. They are headed in relatively different directions and are just passing one another.

REGIONAL INDICES OF SMALL BUSINESS OPTIMISM
AS A PERCENTAGE OF THE NATIONAL INDEX

CHART 5
NEW ENGLAND, MID-ATLANTIC, SOUTH ATLANTIC REGIONS

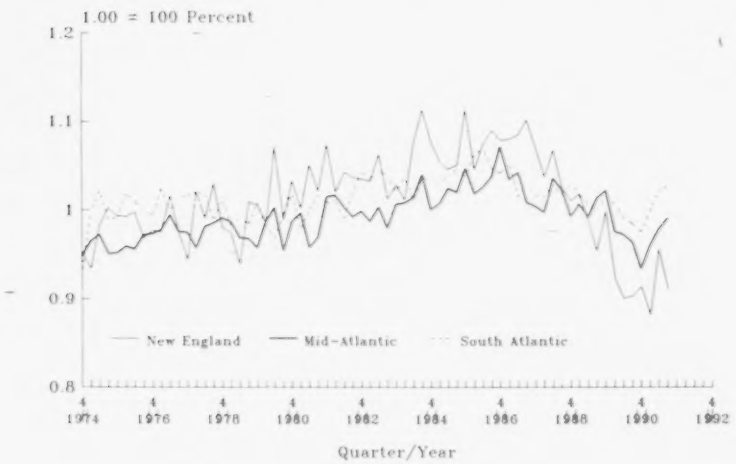


CHART 6
GREAT LAKES, EAST SOUTH CENTRAL, PLAINS REGIONS

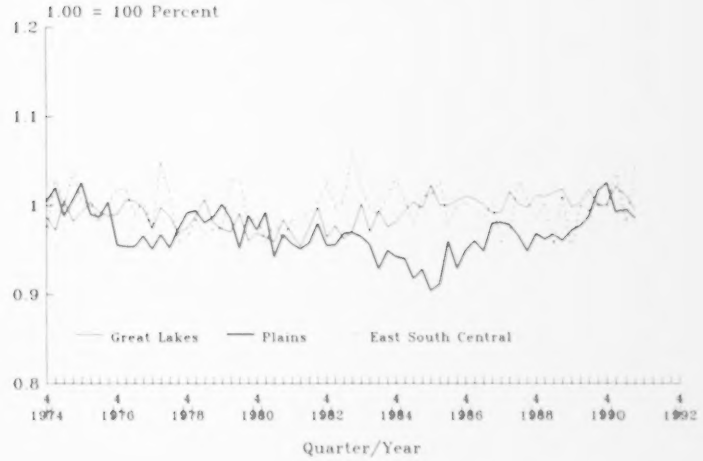
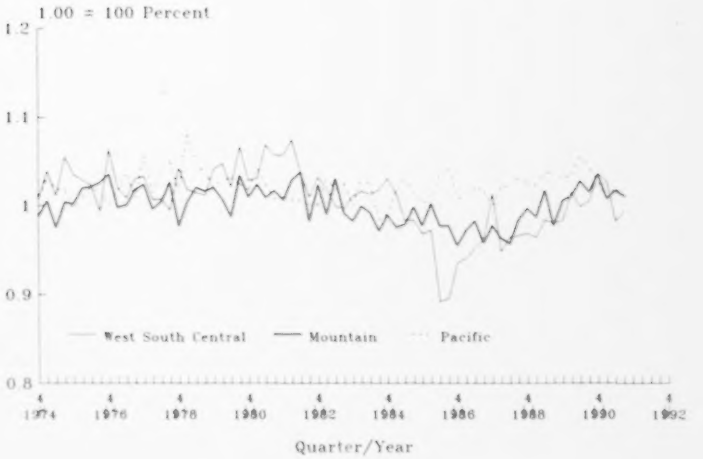



CHART 7
WEST SOUTH CENTRAL, MOUNTAIN, PACIFIC REGIONS



APPENDIX

Table A-1
Description of Industry Classification

| Industry | Industry Examples |
|---|---|
| Construction | Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, highway and bridge, etc.) |
| Manufacturing/ Mining | (Includes dairy processor, printer, publisher machine shop, oil field service, etc.) |
| Transportation/ Communication | Truckers, movers, warehouse, travel agent, broadcasters, public utilities |
| Wholesale | (Includes manufacturer's representative, grain elevator, distributor) |
| Retail | (Includes service station, restaurant, bar, clothing store, flower shop) |
| Agriculture | Veterinarian, forestry, fishing, nursery |
| Financial Services | Finance, insurance, real estate |
| Services | Beauty salon, garage, motel, repair service, bookkeeper, photographer, funeral director, credit bureau, laundry |
| Professional Services | Physician, dentist, engineer, architect, accountant, nursing home operator, lawyer |

Table A-2
Definition of Regions

| Region | States |
|---|---|
| New England | Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont |
| Mid-Atlantic | New Jersey, New York, Pennsylvania |
| Great Lakes | Illinois, Indiana, Michigan, Ohio, Wisconsin |
| Plains | Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota |
| South Atlantic | Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia (includes Washington, DC) |
| East South Central | Alabama, Kentucky, Mississippi, Tennessee |
| West South Central | Arkansas, Louisiana, Oklahoma, Texas |
| Mountain | Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming |
| Pacific | Alaska, California, Hawaii, Oregon, Washington |

Table A-3
Profile of Respondents

| Industry | Percent | Number |
|---|---|---|
| Construction | 15 | 317 |
| Manufacturing | 13 | 272 |
| Transportation/Communication | 3 | 66 |
| Wholesale | 7 | 154 |
| Retail | 28 | 607 |
| Agriculture | 5 | 109 |
| Financial Services | 7 | 146 |
| Service | 15 | 316 |
| Professional Services | 7 | 156 |
| No Answer | * | 1 |
| Total | 100 | 2144 |

| Employee Size | Percent | Number |
|---|---|---|
| 1 - 2 | 17 | 365 |
| 3 - 5 | 30 | 641 |
| 6 - 9 | 18 | 394 |
| 10 - 14 | 12 | 254 |
| 15 - 19 | 6 | 132 |
| 20 - 39 | 9 | 183 |
| 40 or More | 8 | 162 |
| No Answer | * | 13 |
| Total | 100 | 2144 |

| Region | Percent | Number |
|---|---|---|
| New England | 5 | 100 |
| Mid-Atlantic | 11 | 234 |
| South Atlantic | 12 | 234 |
| Great Lakes | 18 | 392 |
| East South Central | 5 | 106 |
| West South Central | 11 | 235 |
| Plains | 14 | 298 |
| Mountain | 8 | 172 |
| Pacific | 16 | 351 |
| Total | 100 | 2184 |

# NFIB QUARTERLY ECONOMIC SURVEY

**Please (circle) the appropriate answers or fill in the blanks.**

1. What is your form of business organization?

[1] Proprietorship [2] Partnership [3] Corporation 1

2. Please classify [your major business activity] using [one] of the categories of examples below. (If more than one applies, circle ***the one*** which contributes the most toward your gross sales or total revenues.)

[1] Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, ***etc.***)
[2] Manufacturing and mining (including dairy processor, printer, publisher, ***etc.***)
[3] Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, ***etc.***)
[4] Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., ***etc.***) 2
[5] Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, ***etc.***)
[6] Agriculture, veterinarian, forestry, landscaping, fisheries, ***etc.***
[7] Financial, insurance, real estate, bank, savings & loan, ***etc.***
[8] Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, ***etc.***
[9] Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, ***etc.***
[10] Other (please describe) _____

3. What is the [single] most important problem facing [your business] today? (Please circle only **ONE** of the following):

[1] Taxes
[2] Inflation
[3] Poor sales
[4] Interest rates & financing
[5] Cost of labor
[6] Government regulation(s) & red tape
[7] Competition from large businesses
[8] Quality of labor
[9] Shortage of fuels, materials or goods 3
[0] Other _____ (please explain)

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

[1] Yes [2] No [3] Uncertain 4

4a. Why? (Circle **ONE** answer – ***most important reason***)

[1] Economic conditions
[2] Sales prospects
[3] Financing & interest rates
[4] Cost of expansion
[5] Other _____ (please explain) 5

5. About the [economy in general,] do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

[1] Much better
[2] Somewhat better
[3] About the same
[4] Somewhat worse
[5] Much worse
[6] Don't know 6

6. During the last 3 months or calendar [quarter,] what were your [gross sales,] or revenues?

[1] Under $12,500
[2] $12,500–24,999
[3] $25,000–49,999
[4] $50,000–87,499
[5] $87,500–199,999
[6] $200,000–374,999
[7] $375,000–749,999
[8] $750,000 or more 7

6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

[1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 8

6b. If [higher or lower,] by approximately what percentage?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50%
[8] 51% or more 9

7. Were your [net earnings] or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

[1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 10

7a. If [higher or lower,] by approximately what percentage?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50%
[8] 51% or more 11

7b. If [higher or lower,] what is the ***most important reason***? (Circle only **ONE**)

[1] Sales volume
[2] Labor costs
[3] Cost of materials
[4] Availability of materials
[5] Received higher prices for your product or service
[6] Financing costs
[7] Usual seasonal change
[8] Other _____ (Specify)

12

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***?

[1] Go up a lot
[2] Go up a little
[3] Stay the same
[4] Go down a little
[5] Go down a lot
[6] Don't know

13

9. How are your [average selling prices] now compared to three months ago?

[1] Lower now
[2] No difference
[3] Higher now
[4] Don't know

14

9a. If ***higher or lower***, by what percent, on an average?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

15

10. In the ***next three months***, do you plan to ***change*** the [average selling prices] of your goods and/or services?

[1] Yes, raise prices
[2] Yes, lower prices
[3] No change
[4] Don't know

16

10a. If raise or lower, by what percent, ***on average***?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

17

11. How many employees do you have [full and part-time] ***including yourself***?

[1] One
[2] Two
[3] 3–5
[4] 6–9
[5] 10–14
[6] 15–19
[7] 20–39
[8] 40 or more

18

12. During the ***last three months***, did the ***total*** number of employees in your firm increase, decrease, or stay about the same?

[1] Increased by ____ employee(s)
[2] Decreased by ____ employee(s)
[3] Stayed the same

19-21

12a. If the ***total number*** of employees [increased or decreased,] was this change due primarily to ***seasonal factors*** affecting your business?

[1] Yes
[2] No

22

13. In the ***next three months***, do you expect to increase or decrease the total [number of people working for you?]

[1] Increase
[2] Keep the same
[3] Decrease

23

14. Do you have any [job openings] that you are ***not*** able to fill right now?

[1] Yes, for skilled labor
[2] Yes, for unskilled labor
[3] Yes, both skilled and unskilled labor
[4] No

24

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation)

[1] Less than one month
[2] One month, but less than three months
[3] Three months, but less than six months
[4] Six months or more

25

15. During the last three months, did you increase or decrease your inventories?

[1] Increase
[2] About the same
[3] Decrease
[4] Not appropriate

26

15a. If [increase or decrease,] by approximately what percent?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50%
[8] 51% or more

27

16. At the present time, do you feel your [inventories] are too large, about right, or inadequate?

[1] Too large
[2] About right
[3] Too low
[4] Not appropriate

28

16a. Looking ahead to the [next three to six months,] do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

[1] Add
[2] Keep the same
[3] Decrease
[4] Not appropriate

29

**(See next page)**

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

[1] Much higher [3] Same [5] Much lower [7] Inapplicable, do not borrow regularly 30
[2] Higher [4] Lower [6] Don't know

17a. Are these loans easier or harder to get than they were ***three months ago***?

[1] Easier [2] Same [3] Harder [4] Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

[1] Easier [2] Same [3] Harder [4] Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? _____ % or Prime + _____ 33–35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

| | | |
|---|---|---|
| Equipment, Vehicles: | [1] Yes | 36 |
| Additional Buildings: | [1] Yes | 37 |
| Improved Buildings: | [1] Yes | 38 |
| Additional Land: | [1] Yes | 39 |

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

[1] under $1,000 [4] $10,000–19,999 [7] $100,000–499,999 40
[2] $1,000–4,999 [5] $20,000–49,999 [8] $500,000–999,999
[3] $5,000–9,999 [6] $50,000–99,999 [9] $1 million or more

20. Looking ahead to the next three to six months do you expect to make any capital expenditures for plant and/or physical equipment?

[1] Yes [2] No [3] Don't know 41

**PLEASE DO NOT REMOVE ADDRESS LABEL**
(Needed for compiling geographical and industry information)

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

[1] Increase [2] Keep the same [3] Decrease [4] Don't know 42

21a. If Increase or Decrease, by what percentage on average?

[1] 1–2% [3] 5–6% [5] 9–10% [7] Don't know 43
[2] 3–4% [4] 7–8% [6] Over 10%

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

[1] Increased [2] Kept the same [3] Decreased 44

22a. If Increased or Decreased, by what percentage on average?

[1] 1–2% [3] 5–6% [5] 9–10% 45
[2] 3–4% [4] 7–8% [6] Over 10%

23. Please indicate the geographical area that best describes the community in which your business is located:

[1] A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
[2] A small city (population over 15,000 but under 100,000 in city and immediate area)
[3] A rural area (population under 15,000 in city and surrounding communities)

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